Supreme Court, U.S.
FILED

No. 94-1564 MAR 22 1995

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1994

SUSAN SOLOMON PATTULLO, LLOYD RIBNER, as executor of the estate of MURIEL RIBNER, SELMA DIAMOND, JOSEPH HOLLAND, Commisioner of the Division of Housing and Community Renewal of the State of New York, DENNIS C. VACCO, Attorney General of the State of New York, and NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Petitioners,

—against—

RESOLUTION TRUST CORPORATION, as Receiver for Nassau Savings and Loan Association, F.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Financial Institutions Reform, Recovery and Enforcement Act of 1989, 12 U.S.C. § 1441a *et seq.*, the federal statute enacted to provide for the resolution of failed savings and loan institutions, authorizes the Resolution Trust Corporation to repudiate statutory tenancies in disregard of New York State's securities and rent regulatory laws.

LIST OF PARTIES

The following parties were appellees in the court below: Selma Diamond, Ira Kaufman, Jerome Lederer, Peggy Lehman, Susan Solomon Pattullo, Horace Solomon, Lillian Solomon, Denise Tucker, Lloyd Ribner, as Executor of the Estate of Muriel Ribner, deceased, the New York State Division of Housing and Community Renewal ("DHCR"), Donald Halperin, as Commissioner of DHCR and G. Oliver Koppell, as Attorney General of the State of New York.

Of these appellees, Susan Solomon Pattullo, Selma Diamond, Lloyd Ribner, and DHCR are petitioners herein. Dennis C. Vacco, who succeeded appellee G. Oliver Koppell as Attorney General of the State of New York on December 30, 1994, and Joseph Holland, who succeeded appellee Donald Halperin as Commissioner of DHCR on December 30, 1994, are also petitioners herein, both automatically substituted as parties pursuant to Fed. R. Civ. P. Rule 25(d). Appellees Ira Kaufman, Peggy Lehman and Horace Solomon, individually and as executor of the estate of Lillian Solomon, are submitting a separate petition for a writ of certiorari. Appellee Jerome Lederer has died and his estate is not seeking review of the judgment below.

The appellant below, the Resolution Trust Corporation, as receiver for Nassau Savings and Loan Association, F.A., is the respondent herein.

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IN THE

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No. _____

SUSAN SOLOMON PATTULLO, LLOYD RIBNER, as executor of the estate of MURIEL RIBNER, SELMA DIAMOND, JOSEPH HOLLAND, Commisioner of the Division of Housing and Community Renewal of the State of New York, DENNIS C. VACCO, Attorney General of the State of New York, and NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Petitioners,

—against—

RESOLUTION TRUST CORPORATION, as Receiver for Nassau Savings and Loan Association, F.A.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI

Petitioners respectfully pray that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Second Circuit, entered in this action on January 20, 1995, which reinstated a prior judgment and opinion of the Second Circuit entered on March 2, 1994.

OPINIONS BELOW

The January 20, 1995 opinion of the Court of Appeals for the Second Circuit is (to be) reported at 45 F.3d 665 (2d Cir.

1995) and is reprinted in the appendix to the petition at 1a to 26a.[1] The opinion was issued after this Court granted two petitions for certiorari, vacated the March 2, 1994 judgment of the Second Circuit, and remanded the case for reconsideration in light of *O'Melveny & Myers v. FDIC*, 114 S. Ct. 2048 (1994). The remand orders are reported *sub nom Solomon v. RTC*, 115 S. Ct. 43 (1994) and *Pattullo v. RTC*, 115 S. Ct. 44 (1994), and are reprinted in the appendix at 88a to 90a. The March 2, 1994 opinion of the Second Circuit is reported at 18 F.3d 111 (2d Cir. 1994) and is reprinted in the appendix at 27a to 61a. The memorandum opinion of the United States District Court for the Southern District of New York (Carter, J.) is reported at 801 F. Supp. 1152 (S.D.N.Y. 1991) and is reprinted at 62a to 84a.

JURISDICTION

The judgment of the Second Circuit was entered on January 20, 1995. On March 7, 1995, the Second Circuit stayed issuance of the court's mandate pending filing of a petition for certiorari by March 21, 1995. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTES INVOLVED

The applicable statutes and regulations are reproduced in the appendix at 91a to 98a. The relevant federal statutory provisions are found under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), 12 U.S.C. § 1441 *et seq.* and apply to both RTC and the Federal Deposit Insurance Corporation.

Of particular relevance are 12 U.S.C. §§ 1821(e)(1) and 1821(e)(5)(A).

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[1] References to the petitioners' appendix are cited as "__a". The joint appendix in the court below is referred to as "JA-__".

12 U.S.C. § 1821(e)(1) provides that:

> In addition to any other rights a conservator or receiver may have, the conservator or receiver for any depository institution may disaffirm or repudiate any contract or lease:
>
> (A) to which such institution is a party;
>
> (B) the performance of which the conservator or receiver, in the conservator's or receiver's discretion, determines to be burdensome; and
>
> (C) the disaffirmance or repudiation of which the conservator or receiver determines, in the conservator's or receiver's discretion, will promote the orderly administration of the institution's affairs.

12 U.S.C. §1821(e)(5)(A) provides that:

> If the conservator or receiver repudiates an unexpired written lease of real property of the insured depository institution under which the institution is the lessor and the lessee is not, as of the date of such repudiation, in default, the lessee under such lease may either—
>
> (i) treat the lease as terminated by such repudiation; or
>
> (ii) remain in possession of the leasehold interest for the balance of the term of the lease unless the lessee defaults under the terms of the lease after the date of such repudiation.

The relevant New York statutory and regulatory provisions are the Emergency Housing Rent Control Law, L. 1946, c. 274 (codified at N.Y. Unconsol. Laws §§ 8581-8597 [McKinney 1987]); Admin. Code of the City of N.Y. §§ 26-401-415 (reported following N.Y. Unconsol. Law § 8617 [McKinney 1987] ("N.Y.C. Admin. Code"); N.Y.C. Admin Code §§ 26-501-520 (reported following N.Y. Unconsol. Law § 8617 [McKinney 1987]); 9 NYCRR 2520 *et seq.* (reported

following N.Y. Unconsol. Laws § 8634 [McKinney 1987]); and N.Y. Gen. Bus. Law § 352 *et seq.*

STATEMENT OF THE CASE

Since 1946, New York has periodically enacted and extended a series of rent regulatory laws to protect its citizens from eviction. The enactment of these laws has been based upon a finding that a housing emergency exists in certain areas of the State of New York. (N.Y.C. Admin. Code §§ 26-401, 26-501.)[2] This case involves a challenge to those laws by the Resolution Trust Corporation ("RTC").[3] RTC claims that it may "disaffirm or repudiate any contract or lease" to which a failed institution is a party and which it deems burdensome. 12 U.S.C. § 1821(e)(1). It further contends that its repudiation power extends to statutory tenancies which are governed pursuant to the historic emergency housing laws enacted by the states. Petitioners maintain that Congress, in employing the terms "contract" and "lease", never intended to authorize RTC's repudiation of such statutory tenancies.

A. New York's Rent Regulatory Scheme

New York has established two systems of rent-protected tenancies: rent control and rent stabilization.[4] Under both types of rent regulation, rental increases and continued occupancy are controlled by statute. *See, e.g.*, N.Y.C. Admin. Code § 26-405 (rent control); N.Y.C. Admin. Code § 26-511 (rent stabilization). The heart of these rent protection systems is that, as long as the legally prescribed rent is paid, tenants

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[2] *See also Sobel v. Higgins*, 188 A.D.2d 286 (1st Dep't 1992), *appeal dismissed*, 81 N.Y.2d 953 (1993); McKinney's *Session Laws*, L. 1982, c. 555, Legislative Findings § 1.

[3] RTC is the federal agency established to resolve the problems of failed savings and loan associations.

[4] This rent regulatory scheme is applicable mainly to New York City and its surrounding counties.

may not be evicted except for certain specified grounds. N.Y.C. Admin. Code § 26-408, reported following N.Y. Unconsol. Law § 8617 (McKinney 1987); N.Y.C. Admin. Code 26-511 and 9 NYCRR Part 2524.[5] Rent control does not require any lease agreement. *See, e.g.*, N.Y.C. Admin. Code § 26-408(a). Although rent stabilization utilizes leases to periodically increase rents, the absence of a lease does not affect the tenant's status as protected by the rent stabilization laws. *See, e.g.*, 9 NYCRR § 2522.5(b)(2).

Rent control is based upon a finding that a "serious emergency continues to exist in the housing of a considerable number of persons in the city. . . ." N.Y.C. Admin. Code § 26-401. Rent stabilization was adopted in New York City in 1969 because of a similar finding that a "serious public emergency continues to exist. . . ." N.Y.C. Admin. Code § 26-501. In 1993, New York again declared an emergency in housing in certain parts of the State and readopted the rent regulation enabling laws (with some modifications not relevant here) and extended them to June 15, 1997. McKinney's *Session Laws*, L. 1993, c. 253.

B. New York's Condominium Conversion Laws

New York has enacted a comprehensive set of laws which govern the conversion of residential rental properties to condominium ownership. N.Y. Gen. Bus. Law, art. 23-A, §§ 352-359-h (McKinney 1984). These laws, commonly referred to as the Martin Act, require, *inter alia*, that an offering plan disclosing all material facts be filed with the Attorney General

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[5] Grounds for eviction under both rent control and rent stabilization include breach of a substantial obligation of the tenancy, commission of a nuisance, illegal occupancy, refusal to provide reasonable access, or occupancy in premises undergoing an eviction-type cooperative conversion. In addition, there are procedures for terminating tenancies where an owner seeks to occupy the premises, where the tenant is not using the premises as a primary residence, or where an owner seeks to demolish or alter the premises.

of the State of New York prior to any public offer of a condominium unit for sale.[6] N.Y. Gen. Bus. Law § 352-e.[7]

In addition, for conversions in New York City and three suburban counties, the Martin Act sets forth certain rights for tenants. In particular, non-purchasing tenants under non-eviction type plans who are subject to rent control or rent stabilization remain so if they choose not to purchase their units. N.Y. Gen. Bus. Law §§ 352-eeee(2)(c)(ii) and (iii), 352-eee(2)(c)(ii) and (iii). Those tenants not subject to rent regulation receive protection from eviction except for certain "fault" grounds and cannot have their rents unconscionably increased. N.Y. Gen. Bus. Law §§ 352-eeee(2)(c)(iv), 352-eee(2)(c)(iv).

C. The Conversion Of The Premises

In May, 1982, the Attorney General accepted for filing an offering plan to convert the 45-unit rental building at 444 East 57th Street, Manhattan to condominium ownership. (JA-209). Originally, the plan provided that the tenants who elected not to purchase, except for eligible senior citizens or eligible disabled persons, could be evicted from their apartments three years after the plan was declared effective. N.Y. Gen. Bus. Law § 352-eeee(1)(f) and (g). In 1983, the tenants negotiated with the sponsor of the offering to amend the plan to permit tenants to purchase their units at a reduced purchase price or to remain as tenants as long as rent was paid and there were no defaults on their obligations under their tenancies. (JA-209, 364-372). Petitioners Pattullo and Ribner[8] are tenants

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[6] These laws also regulate other types of real estate securities: cooperatives, homeowners associations, timeshares and real estate syndications.

[7] These provisions also proscribe fraud and fraudulent practices. N.Y. Gen. Bus. Law §§ 352, 352-c.

[8] Muriel Ribner is now deceased. She is represented by Lloyd Ribner, the executor of her estate.

who relied upon this promise not to be evicted, and chose to remain as non-purchasing tenants. (JA-318-333, 475-478).

In early 1983, unit closings took place. (JA-210). The sponsor retained ownership of the units occupied by rent-regulated tenants who chose not to purchase. Those units were offered for sale, but prospective purchasers were warned in the offering literature that the tenants were entitled to remain in possession pursuant to the requirements of the Martin Act. (JA-377).

In 1984, the sponsor pledged ten of its unsold occupied rent-regulated units to Nassau Federal Savings and Loan Association ("Nassau Federal") as collateral for a loan of $3,200,000.[9] (JA-199). The loan was based on a valuation of the nine rent-regulated units as occupied by non-purchasing rent-regulated tenants. In July 1987, the sponsor of the offering defaulted on its loan and Nassau Federal commenced foreclosure proceedings. A foreclosure sale was held in March, 1989, at which time Nassau Federal, as the highest bidder, acquired title to the units. (JA-199-200). Upon acquisition of the units, Nassau Federal assumed the rights and obligations of the sponsor, as set forth by applicable rent control or rent stabilization provisions of state law, as well as the express terms of the offering plan. Among the applicable provisions of state law was the obligation of any new owner of the units to allow non-purchasing tenants to remain in occupancy. (JA-199).

D. The Enactment Of FIRREA And RTC's Repudiation

In 1989, Congress enacted FIRREA in response to the growing savings and loan crisis. With the enactment of FIRREA, Congress created the RTC to recapitalize the savings deposit insurance system and to provide for the expeditious resolution of failed savings and loan institutions. Sen Rep.

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[9] The units had an aggregate cash purchase price as vacant of $7,746,400. (JA-210). One unit was later sold and is not at issue.

No. 101-19, 101st Cong., 1st Sess. at 3. In order to accomplish these goals, RTC was given the authority to operate a failed institution as a conservator, preserving its assets and property, 12 U.S.C. § 1821(d)(2)(D), or as a receiver, liquidating its assets. 12 U.S.C. § 1821(d)(2)(E).

RTC was authorized, *inter alia,* to "disaffirm or repudiate any contract or lease" to which the failed institution was a party if, in its discretion, it determines the contract or lease to be "burdensome" and if such disaffirmance or repudiation will, in its opinion, "promote the orderly administration of the institution's affairs." 12 U.S.C. § 1821(e)(1). In addition, the statute provided that where RTC repudiates such a lease, the lessee has the right to "remain in possession of the leasehold interest for the balance of the term of the lease." 12 U.S.C. § 1821(e)(5)(A).

On or about March 16, 1990, RTC was appointed the receiver of Nassau Federal by the Office of Thrift Supervision ("OTS"). (JA-200). Title to the occupied rent-regulated units at the premises was formally taken on March 20, 1990, by a new federal savings and loan association, Nassau Savings and Loan Association, F.A. ("Nassau Savings"), organized by RTC pursuant to 12 U.S.C. § 1821(d)(2)(F). (JA-200). When RTC took possession of Nassau Federal, it succeeded to the rights, titles and obligations of Nassau Federal, including the obligations with regard to the nine rent-regulated, occupied apartments at 444 East 57th Street.[10] (JA-199).

On August 17, 1990, RTC wrote to the tenants in those nine units, advising them that it intended to repudiate and disaffirm the leases to their apartments. Tenants were advised that, under 12 U.S.C. § 1821(e)(5)(A), they could either treat their leases as terminated and vacate immediately or remain in pos-

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[10] There is no dispute that each of the nine units had been subject to either rent control or rent stabilization prior to the conversion of the premises to condominium ownership. (JA-77-78).

session for the balance of the lease term.[11] Alternatively, tenants were offered the right to buy their units at 90% of the appraised vacant value. (JA-214, 249-266).

The New York Attorney General objected to RTC's repudiation of the tenancies. (JA-94-97). RTC Executive Director David Cooke was also concerned about the legality of the attempted repudiation and this eventually led to a decision to suspend steps towards repudiation pending receipt of additional information, including an analysis of RTC's authority to repudiate, the number of units impacted by RTC's decision,[12] and whether any leases could be terminated within the framework of local law. After this review, however, RTC staff again recommended repudiation, acknowledging the "precedent setting" nature of their action. (JA-269).

Consistent with this recommendation, RTC adopted an across-the-board policy of repudiation applicable to all residential units in New York subject to state or local rent and/or securities regulation. The Policy Statement (A-39), adopted by the RTC Board on February 22, 1991, provided that RTC could repudiate burdensome leases when the family income was 115% or more than the HUD median income level for the area.[13] On February 25, 1991, RTC wrote to the tenants at the

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[11] In most cases, RTC deemed the lease terms to be ended as of September 30, 1990. (JA-249-266).

[12] According to RTC, by 1990 it estimated that it had 1,000 units in either cooperatives or condominiums under its control in the New York and New Jersey area and that this number could increase to 2,000 should seventeen additional failed savings and loan institutions come under its control as scheduled. RTC acknowledged that it might have even additional units in New York held by institutions located outside the Northeast Region. In addition, RTC was aware that there were other units under its control or ownership in New York which were held by institutions located outside the region. RTC was also aware that its projections did not include units held by the Federal Deposit Insurance Company ("FDIC"). (JA-272).

[13] In December, 1993, RTC raised this ceiling to 130%.

premises to "confirm" RTC's repudiation of their statutory tenancies.

E. Prior Proceedings

On February 25, 1991, RTC commenced an action in the United States District Court for the Southern District of New York for a declaration that it had authority, under FIRREA, to preempt New York law, repudiate the leases and tenancies for the nine rent-regulated units, evict the tenants without regard to state law and sell the units.[14] (JA-11-29). On March 11, 1991, New York State commenced its own action in the United States District Court for the Southern District of New York seeking a declaration that RTC cannot evict statutory tenants residing in cooperatives and condominiums established under state law and pursuant to an offering plan, and seeking an injunction barring RTC from attempting to evict the tenants in violation of the rent regulatory laws of the State or otherwise interfering with their rights.[15] The State also sought to enjoin RTC from engaging in any acts involving the offer of real estate securities without first complying with the State's disclosure requirements under the Martin Act. (JA-62-91). On May 30, 1991, the district court (Carter, J.) consolidated the two actions and, on January 10, 1992, the plaintiffs in both actions moved for summary judgment.

By judgment entered November 16, 1992, the district court granted the State's motion for summary judgment and denied summary judgment to the RTC. (85a-87a). In its decision (62a-84a), the court looked to state law for the definition of "contract or lease". It determined that New York's statutory tenancies are not based on leases or contracts, but rather, exist by reason of New York's emergency rent laws. It rejected

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[14] RTC invoked the jurisdiction of the federal district court pursuant to 12 U.S.C. § 1441a(1).

[15] The State invoked the jurisdiction of the federal district court pursuant to 12 U.S.C. § 1441a(a)(11) and 28 U.S.C. §§ 1331, 1346(a)(2) and 1361.

RTC's argument that New York's rent regulations and securities laws are preempted by FIRREA either expressly or because there is a conflict between federal and state laws. Therefore, the court held that the RTC exceeded its authority under 12 U.S.C. § 1821(e) when it attempted to repudiate the tenancies in question.

RTC appealed to the United States Court of Appeals for the Second Circuit. On March 2, 1994, the Second Circuit reversed the district court's holding that RTC could not repudiate New York's statutory tenancies. (27a-61a). The court held that the nine tenancies are grounded in a contract or lease, as defined by federal law, and thus fell within the express language of FIRREA. It acknowledged that the tenancies "are tightly regulated and policed", and that the "core" terms of the landlord-tenant relationship which are "indispensable" to the creation of a tenancy—the duration, or "term", and the price, or "rent"—are governed by New York's rent regulatory statutes. Nevertheless, the court determined that such regulation did not make the tenancies "non-contractual" in nature. (42a,47a).

The Second Circuit also rejected New York's alternative argument that, under 12 U.S.C. § 1821(e)(5)(A), even if the tenancies are found to be lease-based, the tenants could remain in possession of their apartments for the duration of their statutory tenancies, so long as they continued to pay rent, not just for the period during which their rate of rent remained in effect. The court determined that even though, under state law, these tenancies continue upon each reauthorization of the state statutes, the "acute financial emergency" RTC was designed to aid mandated a shorter duration. It specified the times at which the tenancies ended as being either the next lease renewal date for rent-stabilized tenants or the biennial January 1st date when rent-controlled tenants had their base rent reviewed.

Thereafter, petitions for issuance of a writ of certiorari were filed in this Court. On October 3, 1994, the petitions were granted, the judgment of the Court of Appeals was vacated and the case was remanded for further consideration in light of *O'Melveny & Myers v. Federal Deposit Insurance Corporation*, 114 S.Ct. 2048.

Upon remand, the Court of Appeals on January 20, 1995, reinstated its previous opinion with one modification relating to the lease term. 45 F.3d 665 (2d Cir. 1995). Finding that RTC's cause of action to repudiate rent-regulated leases arises out of a provision in FIRREA which specifically creates a special federal rule of decision, the court rejected the application of state law and held that "nothing in *O'Melveny* . . . militates against" creating a federal law definition of "contract or lease". (12a).[16] Applying what it believed to be the common law definition of "contract or lease", the court found that the relationship between the parties commenced with a contract and any statutory tenancy obligations enacted pursuant to New York's police powers became part of the contract. It concluded that repudiation was therefore proper under federal law.

In addition, the Second Circuit found that "the non-eviction aspect of the state's rent regulation scheme directly interferes with the 'accomplishment and execution of the full purposes and objectives' " of RTC's repudiation power under FIRREA (22a), which, as the court saw it, is "the maximization of return on assets." (21a). Therefore, the court held that to the extent state law interferes with the operation of 12 U.S.C. § 1821(e), it is preempted.[17]

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[16] The Second Circuit denied a motion, pursuant to § 0.27 of the Rules of Court of the Second Circuit, to certify state law issues to the New York Court of Appeals.

[17] The circuit court modified its original holding defining "lease term" [12 U.S.C. § 1821(e)(5)] for rent-controlled tenancies and held that a rent-controlled tenancy terminates one year from the date a repudiation notice is served upon the tenant. (26a).

REASONS FOR GRANTING THE WRIT

This case merits review because it raises important issues of federal-state relations and because the Second Circuit's decisions are in conflict with relevant state and federal case law.

The Second Circuit's decisions in this case impermissibly sweep away important aspects of the historic balance between the powers of the federal government and the powers of the states—the right of states to exercise their emergency police powers to protect their citizens' homes. In reaching its conclusion that FIRREA expressly preempts New York's statutorily rent-regulated tenancies and that New York law is in conflict with FIRREA, the court has displaced almost fifty years of rent regulation in New York.

As a result, New York's historic exercise of its emergency police powers in the area of housing is severely threatened. Moreover, in stating that 12 U.S.C. § 1821(e)(1) preempts "volumes of state law" (11a), the Second Circuit has signalled to all of the states that RTC has unfettered power to preempt state laws, even those which have historically been left to the states to protect their citizenry.[18]

A. The Second Circuit's Decisions Conflict With Relevant State And Federal Case Law

As noted previously, under § 1821(e)(1) of FIRREA, RTC may "disaffirm or repudiate any contract or lease" to which the institution is a party and which the RTC deems burdensome. Focusing on what it termed the "voluntary" nature of New York's rent-controlled and rent-stabilized tenancies, the Second Circuit concluded that FIRREA authorizes RTC to repudiate and disaffirm such tenancies. The court's decisions are in direct conflict with the relevant New York cases and federal case law.

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[18] The Federal Deposit Insurance Corporation will continue to have such power after RTC ceases to exist. 12 U.S.C. § 1441a(b)(4).

In New York, a tenant occupying a rent-controlled or rent-stabilized apartment does not have a mere contractual relationship with the landlord. While New York's statutory tenancies are commenced by a voluntary agreement, in the sense that the landlord *originally* agreed to rent a unit to a particular tenant, once the tenancy exists, the only remaining voluntary aspect of the relationship is that the tenant can leave at certain times and under certain terms. For the landlord, once the original landlord/tenant relationship is agreed to, all aspects of the relationship are statutorily controlled, so long as the laws are in effect. Most significantly, rent and duration, the two critical elements that the circuit court viewed in its original decision as the "core" aspects of a tenancy and which are "indispensable to the creation of the tenancy" (42a), are controlled by statute. While the landlord-tenant relationship may have commenced by agreement, after the initial "coming-together" of the parties, the emergency rent regulation statutes take over and define the tenancy.

Indeed, both state and federal courts have consistently held that rent-controlled and rent-stabilized tenants are "statutory" not "contractual" tenants. New York's highest court addressed this issue in *Whitmarsh v. Farnell*, 298 N.Y. 336 (1949). There, a landlord sought to evict a tenant with whom he had voluntarily entered into a lease agreement. The New York Court of Appeals held that since the lease was thereafter governed by New York's rent control statute, the tenant's "occupancy of the apartment after his lease expired was not under any agreement express or implied but by virtue of a compulsion exerted on the landlord by the local emergency rent law which allowed him to remain in possession." *Id.* at 343. *See also Matter of Duell v. Condon*, ___ N.Y.2d ___ (1995); 1995 WL 50702 (N.Y. 1995) (rent-controlled tenants maintain their apartments not by contract but by operation of law); *Stern v. The Equitable Company Trust of New York*, 238 N.Y. 267 (1924) (emergency rent laws preclude eviction upon expiration of lease); *Charlotte Realty Co. v. Lubarsky*, 133 Misc.2d

785 (App. T. 2d & 11th Dist. 1986) (tenant who remains in possession pursuant to law is statutory tenant); *Park Summit Realty Corp. v. Frank*, 107 Misc.2d 318, 323 (App. T. 1st Dep't 1980) (upon expiration of original term of lease, tenant becomes statutory tenant), *aff'd*, 84 A.D.2d 700 (1st Dep't 1981), *aff'd*, 56 N.Y.2d 1025 (1982); *De Santis v. White Rose Associates*, 152 Misc.2d 567 (Sup. Ct. N.Y. Co. 1991) (rent-stabilized tenancies are not terminated upon foreclosure).[19]

Similarly, in *In re Friarton Estates*, 65 B.R. 586 (S.D.N.Y. 1986), the Bankruptcy Court held that a trustee in bankruptcy may not remove rent-controlled tenants from apartments owned by the debtor. In so ruling, the court, relying on *Whitmarsh v. Farnell*, 298 N.Y. 336, specifically held that "the occupancy of a statutory tenant is not under any agreement, express or implied, but by virtue of the compulsion exerted on the landlord by local emergency rent laws. . . ." 65 B.R. at 592. *See also Matter of Chicago, Rock Island and Pacific Railroad Co.*, 772 F.2d 299 (7th Cir. 1985), *cert. denied sub nom Kent v. Sanborn Cooperative Grain Co.*, 475 U.S. 1047 (1986) (rejecting trustee's argument that application of Iowa rent control law was preempted by the Bankruptcy Law); *Boston Rent Equity Board v. Dime Savings Bank of New York, FSB*, 611 N.E.2d 245 (Mass. 1993) (rent regulation applies after foreclosure irrespective of whether agreement exists).[20]

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[19] Although the circuit court claimed to "defer to state court pronouncements regarding the definition of property rights" in reaching its first analysis, the court, in fact, chose to rely on the State's general body of property law and totally disregarded the body of New York law which addresses the specific property rights involved in this case, thus ignoring the entire body of New York law which defines rent-regulated tenancies. Moreover, the cases cited by the circuit court do not even hold that these tenancies are non-statutory in nature. Rather, they simply state that certain contractual terms continue to govern the landlord-tenant relationship even after the lease expires.

[20] In its first decision, the Second Circuit pointed out that the Bankruptcy Code expressly permits a tenant to continue in occupancy if otherwise allowed to do so under a non-bankruptcy law such as New

The Second Circuit not only failed to apply these cases correctly to the statutory language of FIRREA, but also ignored the fact that RTC did not demonstrate (*Maryland v. Louisiana*, 451 U.S. 725, 746 [1981]), through the legislative history of FIRREA, that the phrase "contract or lease" was to be applied to include individual rights provided by state statute. In fact, other circuit courts, contrary to the Second Circuit's rulings in this case, have held that individual rights provided by state law are not preempted by the provisions of FIRREA. In *Patterson v. FDIC*, 918 F.2d 540 (5th Cir. 1990), for example, the Fifth Circuit held that sections of FIRREA which imposed conditions on the validity of agreements against the interests of the FDIC did not preclude a maker of a note secured by a deed of trust from asserting her homestead claim under Texas law. In doing so, the court found that a person's right to the State's homestead exemption, analogous to the right of a non-purchasing tenant here to remain in occupancy, "exists independently of any agreements between the parties." *Id.* at 543. (citation omitted).[21] *See also Motor City of Jacksonville, Ltd. v. Southeast Bank, N.A.*, 39 F.3d 292, 299-300 (11th Cir.

York's rent control law. In suggesting that this was the sole basis for the *Friarton* court's determination, the Circuit ignored the Bankruptcy Court's emphasis on the non-contractual nature of a rent-controlled tenancy as well as the Bankruptcy Court's reference to the Seventh Circuit's *Rock Island* case and to the fact that compliance there with the state rent control law "might frustrate federal policy designed to maximize the selling price of a bankrupt railroad's assets." 65 B.R. at 591.

[21] In *Patterson*, the Fifth Circuit applied the three-factor test of *United States v. Kimbell Foods, Inc.*, 440 U.S. 715, 728-729 (1979), and "decline[d] to establish federal common law that would abrogate the well-established Texas law . . . protecting citizens' homesteads." 918 F.2d at 544. The court relied principally on "the disruption of state commercial relationships", *id.* at 544, that would occur if it were to abrogate citizens' well-established right under Texas law not to be forced from their homesteads. Citizens of New York, like citizens of Texas, have a well-established right under the State's rent control and rent stabilization laws not to be evicted from their homes. Because the Fifth Circuit's *Kimbell Foods* analysis applies with equal force to this case, its decision in *Patterson* conflicts with the Second Circuit's analysis.

1994) (tort claims arising outside of agreement are not barred by 12 U.S.C. § 1823[e]); *Villafane-Neriz v. FDIC*, 20 F.3d 35, 41-42 (1st Cir. 1994) (assignment required by state law not part of "agreement"); *Hanson v. FDIC*, 13 F. 3d 1247, 1252 (8th Cir. 1994) (party can maintain tort claims where tort is independent of agreement).

Most recently, this Court reaffirmed that contractual obligations are distinct from obligations imposed by state law. *American Airlines, Inc. v. Wolens*, 115 S. Ct. 817 (1995). In that case, the Court found that while state regulations affecting airlines were preempted under the Airline Deregulation Act of 1978, enforcement of contract terms made by the parties was not so preempted. *See also Cippollone v. Liggett Group, Inc.*, 112 S. Ct. 2608 (1992) (preemption of state law does not bar common law claims).

Here, as demonstrated above, the rights of the affected tenants to occupy their apartments are grounded in state law. The character and essential terms of their tenancies are found not through any contractual agreement with their landlord but, rather, through state statutory provisions governing residential apartments in New York City. The Second Circuit's contrary conclusion misreads FIRREA and applicable state law.

The circuit court's decision on remand also misconstrues this Court's pronouncements in *O'Melveny & Myers v. FDIC*, 114 S. Ct. 2048. In *O'Melveny* the Court held that state law should define "rights" under 12 U.S.C. § 1821(d)(2)(A)(i) and that therefore, California law, not federal law, determines the rights of the lending institution that existed *prior to* receivership of the institution. *Id.* at 2054. 12 § 1821(e)(1) is similar to 12 U.S.C. § 1821(d)(2)(A)(i) in that the referenced "rights" are rights relating to "any contract or lease . . . *to which the institution is a party*." (emphasis added). Applying *O'Melveny* to the facts in this case, Nassau Federal's rights did not permit termination of the tenancies in question because the tenancies were statutorily mandated under state law and were

not, during the period of a declared housing emergency, part of any contract or lease to which the institution was a party.[22] By creating a federal definition of contract or lease, the circuit court erroneously failed to distinguish the tenant's statutory rights from any conceivable contract rights. *Id.*; *American Airlines v. Wolens*, 115 S. Ct. at 824-826.

Besides being in conflict with *O'Melveny* and *American Airlines*, the circuit court's decisions are also in conflict with *RTC v. Artley*, 28 F.3d 1099 (11th Cir. 1994). In *Artley*, the Eleventh Circuit, applying *O'Melveny*, determined that a state law statute of limitations controlled even though the source of RTC's authority to bring gross negligence claims on behalf of a failed institution may be grounded in federal law. 28 F.3d at 1102-1103. The Second Circuit's decision that "when the RTC *does* exercise its federally-granted power to repudiate a contract or lease, its power to do so is not subordinated to state statutes or regulations", (11a) (emphasis in original), directly conflicts with the Eleventh Circuit's interpretation of *O'Melveny*.

The Second Circuit also justified its decision by holding that even if the statutory rights of tenants to remain in their apartments were not to be considered part of a "contract or lease", the applicable rent regulation laws would nevertheless be preempted because such laws would be in conflict with FIRREA's goal to stem the "financial hemorrhaging" of a large number of failed institutions. This conclusion is erroneous. As the district court correctly stated below, if FIRREA does not authorize RTC to repudiate statutory tenancies, RTC has no power to evict tenants and its repudiation of statutory tenants cannot be part of the objectives of Congress. Moreover, this analysis is inconsistent under *O'Melveny*, which counsels that such concern over maximizing money should be

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[22] RTC, as conservator or receiver, "steps into the shoes" of Nassau. *O'Melveny & Myers v. FDIC*, 114 S. Ct. at 2054. Obviously, since Nassau Federal was not a "party" to state law rights held by the tenants, it cannot terminate such rights under the plain language of § 1821(e)(1).

rejected. "[T]here is no federal policy that the fund should always win." *O'Melveny & Myers v. FDIC*, 114 S. Ct. at 2055.[23]

Under a correct interpretation of *O'Melveny*, there is no substantial conflict here between FIRREA and New York law. Nassau Federal loaned monies based upon the value of these units as rent-regulated. The asset RTC now owns is exactly that same asset and it can be sold at any time as occupied units. What the Second Circuit's decisions do is permit RTC to obtain a windfall by first evicting the tenants and then selling the units as vacant.

In addition, the circuit court misapplied the FIRREA provision which gives tenants the right to remain in their apartments for the full term of their leasehold. 12 U.S.C. § 1821(e)(5)(A)(ii). Under New York law, the term or duration of a rent controlled tenancy lasts for "so long as [the tenant] continues to pay the rent." N.Y.C. Admin. Code § 26-408 (reported following N.Y. Unconsol. Law § 8617 [McKinney 1987]) (governing rent-controlled tenants). *See also* 9 NYCRR 2524.1(a) (similar provision governing rent-stabilized tenants); *130 West 57th Corp. v. Hyman*, 66 N.Y.S.2d 332, 334 (App.T. 1st Dept. 1946) ("so long as a tenant continues to pay the rent to which the landlord is entitled he may not be removed from the premises"). In each instance, these tenant rights exist only so long as the state and city law is periodically renewed. The Second Circuit nevertheless decided on remand that a rent-controlled tenancy may, for purposes of FIRREA implementation, be terminated one year after notice of repudiation is given and that a rent-stabilized tenancy ends when the current statutorily-mandated lease expires. This delineation of a tenancy term is artificial and contrary to the letter and spirit of state law.

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[23] As the district court stated below, "[t]he congressional mandate of § 1441a(b)(3)(C) (to maximize the assets), however, is an instruction to the RTC on how to exercise the powers granted to it under sections of FIRREA; it is not a grant of power itself." 801 F.Supp. at 1163.

B. The Circuit's Decisions Are Inconsistent With The Strong Presumption Against Preempting A State From Exercising Its Historic Police Powers, and Ignore The Cooperative Relationship Which The Federal Government Seeks To Maintain With State Systems of Housing

A strong presumption exists against preempting a state from exercising its historic police powers. *Cipollone v. Liggett Group, Inc.*, 112 S.Ct. at 2617. Absent explicit authority to override such powers, RTC should not be permitted to disaffirm the tenancies in question. *BFP v. RTC*, 114 S. Ct. 1757, 1765-1766 (1994) ("where the intent to override is doubtful, our federal system demands deference to long established traditions of state regulation. . . .").[24] This principle has special application here since, as the Third Circuit has stated, "FIRREA is awkwardly written and difficult to interpret." *Hudson United Bank v. Chase Manhattan Bank of Connecticut, N.A.*, 43 F.3d 843, 849 (3rd Cir. 1994).

In ruling that New York's rent control and rent stabilization laws may be preempted by RTC fiat, the Second Circuit disregarded this presumption. In addition, the court ignored the fact that the federal government generally seeks to maintain a cooperative relationship with state systems of housing. *Kargman v. Sullivan*, 552 F.2d 2 (1st Cir. 1977); *Rowe v. Pierce*, 622 F. Supp. 1030, 1033 (D.D.C. 1985). The area of landlord/tenant law at issue here is an area traditionally left to the states. *Id.*

Indeed, it is well-established that "[c]oncepts of real property are deeply rooted in state traditions, customs, habits and laws." *RFC v. County of Beaver*, 328 U.S. 204, 210 (1946). When intruding upon "relationships traditionally governed by state law", this Court has found that the need for uniformity

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[24] Unlike 12 U.S.C. §§ 1464(p), 1821(m)(10) and 1823(k)(1)(A)(i) which expressly provide for override of state laws, § 1821(e)(1) contains no such language.

under federal law can be "outweighed by the severe dislocation to local property relationships. . . ." *United States v. Brosnan*, 363 U.S. 237, 240-242 (1960).

Here, where New York's rent control laws have been in effect, in various forms, for more than fifty years, and survived numerous constitutional challenges in federal and state courts, the circuit court's decisions significantly undermine the historic balance of states' rights and federal power.

CONCLUSION

For the reasons stated above, this petition for a writ for certiorari should be granted.

Dated: New York, New York
March 20, 1995

Respectfully submitted,

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APPENDIX A

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 55—August Term, 1993

(Submitted: November 23, 1994

Decided: January 20, 1995)

Docket No. 92-6244

RESOLUTION TRUST CORPORATION, as Receiver for Nassau Savings and Loan Association, F.A.,

Plaintiff-Appellant,

—v.—

SELMA DIAMOND, IRA KAUFMAN, JEROME LEDERER, PEGGY LEHMAN, SUSAN SOLOMON PATULLO, LLOYD RIBNER, as executor of the estate of MURIEL RIBNER, HORACE SOLOMON, LILLIAN SOLOMON, DENISE TUCKER, ANGELO APONTE, Commissioner of the Division of Housing and Community Renewal of the State of New York, and ROBERT ABRAMS, Attorney General of the State of New York,

Defendants-Appellees,

—and—

NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Appellee.

Before:

PRATT, MCLAUGHLIN and JACOBS,
Circuit Judges.

Resolution Trust Corporation, as receiver for a failed savings and loan, brought action to repudiate leaseholds of nine apartments owned by the savings and loan. New York State brought separate action against Resolution Trust Corporation, alleging that repudiation of leaseholds violated State rent regulations. Actions were consolidated by United States District Court for the Southern District of New York (Carter, *J.*), which granted summary judgment to state and tenants. *Resolution Trust Corp. v. Diamond*, 801 F. Supp. 1152 (S.D.N.Y. 1992). The Court of Appeals reversed and remanded for entry of judgment in favor of Resolution Trust Corporation. *Resolution Trust Corp. v. Diamond*, 18 F.3d 111 (2d Cir. 1994). The United States Supreme Court, *Solomon v. Resolution Trust Corp.*, 115 S. Ct. 43 (1994), granted certiorari, vacated and remanded for reconsideration in light of *O'Melveny & Myers v. FDIC*, 114 S. Ct. 2048 (1994).

Previous decision reinstated, with one modification affecting the remaining lease term of rent controlled tenancies.

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CARTER G. PHILLIPS, Washington DC (Richard D. Bernstein, Peter D. Keisler, Sidley & Austin, Washington, DC, on the brief) *for Defendants-Appellees Lillian Solomon, Horace Solomon, Ira Kaufman, Peggy Lehman, and Denise Tucker-Kellen.*

G. OLIVER KOPPELL, Attorney General of the State of New York (Gary R. Connor, Karen S. Smith, Assistant Attorneys General, New York, NY, on the brief) *for Defendants-Appellees G. Oliver Koppell, Attorney General of the State of New York, Donald Halperin, Commissioner of the Division of Housing and Community Renewal for the State of New York, and Selma Diamond, and for Appellee New York State Division of Housing and Community Renewal.*

DON D. BUCHWALD, New York, NY, *for Defendant Appellee Susan Solomon Pattullo.*

COLLEEN F. MCGUIRE, New York, NY, *for Defendant-Appellee Lloyd Ribner, as Executor of the Estate of Muriel Ribner, deceased.*

JACOBS, *Circuit Judge*:

This matter returns to us following a remand by the Supreme Court. *See Solomon v. Resolution Trust Corp.*, 115 S. Ct. 43 (1994). Our previous decision reversed an order granting summary judgment in favor of the tenants and the state, and remanded to the district court with instructions to enter judgment for the Resolution Trust Corporation ("RTC"). *Resolution Trust Corp. v. Diamond*, 18 F.3d 111 (2d Cir. 1994).[1] The Supreme Court vacated that decision, and remanded for reconsideration in light of its decision in *O'Melveny & Myers v. FDIC*, 114 S. Ct. 2048 (1994), an opinion issued several months after our opinion in *Diamond*.

Having carefully considered *O'Melveny*, as well as the briefs contesting its proper impact on *Diamond*, we now reinstate our previous decision, with one modification affecting the remaining lease term of rent controlled tenancies, and we remand with instructions that the district court enter judgment for RTC in accordance with this opinion and the reinstated opinion.

Background

A. The Facts.

A full statement of the facts is in our previous decision. We presume familiarity with that opinion, and recount here only the few facts that bear upon the impact of the Supreme Court's decision in *O'Melveny*.

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[1] Our decision also addressed separate issues involving Lloyd Ribner, a defendant claiming a right of succession to the tenancy of his deceased mother, Muriel Ribner. We conclude that *O'Melveny* does not affect the issues addressed in that part of our decision, and therefore reinstate without modification the section of the opinion addressing Ribner without further comment.

The individual tenant-defendants occupy rent-regulated condominium apartments in New York City that are now owned by the RTC—as receiver for the failed Nassau Savings and Loan Association, F.A. In late 1990 and early 1991, the RTC repudiated the leasehold interests of the tenants pursuant to authority granted by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). *See* 12 U.S.C. § 1821(e)(1). After encountering resistance from the tenants and New York's Attorney General, the RTC filed a complaint in the United States District Court for the Southern District of New York, asking for (*inter alia*) a declaration that the RTC possessed the repudiation power that it had exercised. New York countered with a separate lawsuit that was consolidated with the RTC's case. After briefing by the parties, the district court concluded that these tenancies were "statutory tenancies" rather than traditional leaseholds and that the RTC therefore lacked the power under FIRREA to repudiate them. The district court accordingly entered summary judgment in favor of New York and the tenants.

We reversed the district court's decision, vacated the grant of summary judgment to New York and the tenants, and ordered that judgment be entered for the RTC. In so doing, we held that the tenancies at issue—albeit "statutory tenancies" according to state law—were nevertheless rooted in lease or contract, and were therefore subject to the RTC's repudiation power. *Diamond*, 18 F.3d at 121. Under FIRREA, after RTC repudiation, the tenant may choose to "remain in possession of the leasehold interest for the balance of the term of the lease . . . ." 12 U.S.C. § 1821(e)(5)(A)(ii). In deciding the remaining term of these rent-regulated tenancies, we looked to state law, and concluded that rent-stabilized

tenants could remain until the expiration of their current lease, and rent-controlled tenants could remain until expiration of a two-year period "commencing on the January 1 of the last biennial review set by the statute prior to notice of repudiation." 18 F.3d at 124. New York and the tenants filed a petition for a writ of certiorari. In *Solomon v. Resolution Trust Corp.*, 115 S. Ct. 43 (1994), the Supreme Court remanded this matter to us for reconsideration in light of *O'Melveny*.

B. The *O'Melveny* decision.

O'Melveny involved a suit brought in 1989 by the FDIC, acting as receiver for a failed savings and loan ("S & L"), against the law firm that had represented the S & L in two 1985 real estate syndications. The FDIC asserted state-law tort claims of professional negligence and breach of fiduciary duty. The defendant law firm, O'Melveny & Myers, successfully moved for summary judgment on the grounds (1) that it owed no duty to the bank or its affiliates to uncover the S & L's own fraud; (2) that knowledge of misconduct by S & L officers is imputed to the S & L, and therefore to a receiver that stands in its shoes; and (3) that the FDIC was estopped by that imputed knowledge from pursuing its tort claims against the law firm. *O'Melveny*, 114 S. Ct. at 2052. The Ninth Circuit reversed the district court's grant of summary judgment in favor of the law firm. *FDIC v. O'Melveny & Meyers*, 969 F.2d 744 (9th Cir. 1992).

The Supreme Court granted certiorari to consider two issues: (1) whether federal common law, rather than state law, "determines whether the knowledge of corporate officers acting against the corporation's interest will be imputed to the corporation;" and (2) even if state law decides that question, whether federal common law will

"determine[ ] the more narrow question whether knowledge by officers so acting will be imputed to the FDIC when it sues as receiver of the corporation." *O'Melveny*, 114 S. Ct. at 2052.

Noting that "the FDIC was asserting in this case causes of action created by California law," the Court answered the first question in the negative, finding the Ninth Circuit's reliance on federal common law "plainly wrong." *Id.* The circuit court had relied on three cases in divining a federal common-law basis for its decision. The Supreme Court distinguished those cases on the principle that, while a federal cause of action may be governed by federal policies, state-law causes of action are properly governed by state law:

> In *Cenco*, where the cause of action similarly arose under state common law, the Seventh Circuit's analysis of the "circumstances under which the knowledge of fraud on the part of the plaintiff's directors [would] be imputed to the plaintiff corporation [was] merely an attempt to divine how Illinois courts would decide that issue." *Schacht*, 711 F.2d, at 1347 (citing *Cenco*, 686 F.2d, at 455). Likewise, in *Investors Funding*, the District Court analyzed the potential affirmative defenses to the state-law claims by applying "[t]he controlling legal principles [of] New York law." 523 F. Supp., at 540. In *Schacht*, the Seventh Circuit expressly noted that "the cause of action [at issue] arises under RICO, a federal statute; we therefore write on a clean slate and may bring to bear federal policies in deciding the estoppel question." 711 F.2d, at 1347.

O'Melveny, 114 S. Ct. at 2053 (discussing *Cenco Inc. v. Seidman & Seidman*, 686 F.2d 449 (7th Cir. 1982), *In re*

Investors Funding Corp. of N.Y. Securities Litigation, 523 F. Supp. 533 (S.D.N.Y. 1980), and *Schacht v. Brown*, 711 F.2d 1343 (7th Cir. 1983)) (alterations in original). We quote this passage at length because, as discussed below, it furnishes a principal point of distinction from *Diamond*.

The Supreme Court in *O'Melveny* "turn[ed], then, to the more substantial basis for the [Ninth Circuit decision], which asserts federal pre-emption not over the law of imputation generally, but only over its application to the FDIC suing as receiver." 114 S. Ct. at 2053. That question is made to depend in part, on the statutory provision that provided the FDIC with the authority to bring the action in the first instance—12 U.S.C. § 1821(d)(2)(A)(i)—which is captioned "Powers and duties of [the FDIC] as . . . receiver," and which states that "the [FDIC] shall . . . by operation of law, succeed to . . . all rights, titles, powers, and privileges of the insured depository institution . . . ." The *O'Melveny* opinion construed this language to place the FDIC as receiver "into the shoes of the failed S & L, obtaining the rights of the insured depository institution that existed prior to receivership." *O'Melveny*, 114 S. Ct. at 2054 (internal quotations and citations omitted).

The Court rejected the FDIC's argument that this statutory provision "should be read as a *nonexclusive* grant of rights to the FDIC receiver, which can be supplemented or modified by federal common law," concluding that the argument is "demolished by those provisions of FIRREA which specifically create special federal rules of decision regarding claims by, and defenses against, the FDIC as receiver." *Id.* (citing, *inter alia*, 12 U.S.C. §§ 1821(e)(1), (3)). Because Congress demonstrated that it could provide a federal rule of deci-

sion where it so intended, it became "hard to avoid the conclusion that § 1821(d)(2)(A)(i) places the FDIC in the shoes of the insolvent S & L, to work out its claims under state law, except where some provision in the extensive framework of FIRREA provides otherwise." *Id.*

That, however, did not completely put the appeal to rest. The Court noted that the FDIC's receivership began in 1986, some three years prior to the effective date of FIRREA. Reluctant to address the question of FIRREA retroactivity where the issue had not been briefed by the parties, the Court instead proceeded to analyze the case "assuming the inapplicability of FIRREA . . . ." 114 S. Ct. at 2055. The outcome did not change. The Court ruled that the FDIC could not prevail because its claim was not "one of those cases in which judicial creation of a special federal rule would be justified." *Id.* The judicial creation of a federal rule of decision is justified only to resolve a " 'significant conflict between some federal policy or interest and the use of state law.' " *Id.* (quoting *Wallis v. Pan American Petroleum Corp.*, 384 U.S. 63, 68 (1966)). In *O'Melveny*, "[t]he closest [the FDIC came] to identifying a specific, concrete federal policy or interest that is compromised by California law [was] its contention that state rules regarding the imputation of knowledge might 'deplet[e] the deposit insurance fund.' " 114 S. Ct. at 2055 (quoting FDIC brief). The court rejected this argument emphatically:

> neither FIRREA nor the prior law sets forth any anticipated level for the fund, so what [the FDIC] must mean by "depletion" is simply the foregoing of *any* money which, under any *conceivable* legal rules, might accrue to the fund. That is a broad principle indeed, which would support not just elimi-

> nation of the defense at issue here, but judicial creation of new, "federal-common-law" causes of action to enrich the fund. Of course we have no authority to do that, because there is no federal policy that the fund should always win. Our cases have previously rejected "more money" arguments remarkably similar to the one made here.

Id. (citing *United States v. Kimbell Foods, Inc.*, 440 U.S. 715, 737-38 (1979); *United States v. Yazell*, 382 U.S. 341, 348 (1966)).

The Court found no more persuasive the FDIC's even broader argument that it would somehow " 'disserve the federal program' " to permit state law to create defenses to lawsuits that would "impos[e] costs 'on the nation's taxpayers, rather than on the negligent wrongdoer.' " *O'Melveny*, 114 S. Ct. at 2055 (quoting FDIC brief). In short, the Court categorically rejected arguments that do no more than "demonstrate[ ] the runaway tendencies of 'federal common law' untethered to a genuinely identifiable (as opposed to judicially constructed) federal policy." *Id.* Holding that "this is not one of those extraordinary cases in which the judicial creation of a federal rule of decision is warranted," *id.* at 2056, the Court reversed the decision, and remanded to the Ninth Circuit to decide what the state law actually provides.

Discussion

O'Melveny furnishes ordering principles by which we can test our decisions on key issues in this case. We conclude that these ordering principles justify our original conclusions and validate our original analysis.

The Court's conclusion in *O'Melveny* is fully applicable to this case: "this is not one of those extraordinary cases in which the *judicial* creation of a federal rule of decision is warranted." 114 S. Ct. at 2056 (emphasis added). We never believed otherwise. Rather, this case is one (quoting *O'Melveny* again) in which the cause of action arises out of a "provision[ ] of FIRREA which specifically create[s] [a] special federal rule[ ] of decision . . . ." *Id.* at 2054 (citing, *inter alia*, 12 U.S.C. § 1821(e)(1)). That Congressionally-created rule of decision expressly grants the RTC the power to abrogate valid contracts and leases where the agency has determined that they are burdensome. Unless the RTC repudiates a burdensome contract or lease, the law of each state will furnish the contract principles that govern the relationship; the RTC, like the FDIC in *O'Melveny*, steps into the shoes of another entity having claims, rights, powers and causes of action defined and limited by state law. However, when the RTC *does* exercise its federally-granted power to repudiate a contract or lease, its power to do so is not subordinated to state statutes or regulations. Section 1821(e)(1) is an express grant of federal power exercisable in derogation of all contrary state law, and it therefore supersedes—or preempts—volumes of state law. This distinction is drawn in *O'Melveny*, where "the FDIC was asserting . . . causes of action created by [state] law," 114 S. Ct. at 2052, and confirms the result in *Diamond*.

Nevertheless, in order to assure that our opinion is analytically congruent with *O'Melveny* throughout, we need to declare certain premises that were left implicit in our earlier opinion, refine some terms of reference, and address specifically the arguments that New York and the tenants predicate upon *O'Melveny*. Thus we now

undertake to clarify *Diamond*, modifying it in the single respect referenced earlier.

A. Construction of phrase "contract or lease."

In *Diamond*, we framed as a central issue whether the tenancies in question had the nature of a "contract or lease," and were therefore subject to the RTC's repudiation power. We stated that, "[f]or these purposes, the definition of the phrase 'contract or lease' is a matter of federal law." 18 F.3d at 118. Nothing in *O'Melveny* (or in the many cases cited by New York and the tenants in their latest briefing) militates against that approach.[2]

New York and the tenants point to the *O'Melveny* principle that we may not "adopt a court-made rule to supplement federal statutory regulation that is comprehensive and detailed; matters left unaddressed in such a scheme are presumably left subject to the disposition provided by state law." *O'Melveny*, 114 S. Ct. at 2054. According to New York, this means that words and terms that are not expressly defined in FIRREA must be construed according to New York law. We disagree. Our reading of the cases cited by the Court following this quotation demonstrates to us that the Court had in mind court-created *remedies and causes of action*, not definitions of terms used in a federal statute.

Thus, in *Northwest Airlines, Inc. v. Transport Workers Union of America, AFL-CIO*, 451 U.S. 77 (1981), the Court held that there is no implied right of contribution in either Title VII of the 1964 Civil Rights Act or in the Equal Pay Act: "The presumption that a remedy was deliberately omitted from a statute is strongest when

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[2] As discussed below, we did, however, use longstanding common-law principles to inform our decision. Thus we used, rather than ignored, state law in defining the terms.

Congress has enacted a comprehensive legislative scheme . . . . The judiciary may not, in the face of such comprehensive legislative schemes, fashion new remedies that might upset carefully considered legislative programs." 451 U.S. at 97. However, the meaning of words in a federal statute is a different matter: "In almost any statutory scheme, there may be a need for judicial interpretation of ambiguous or incomplete provisions. But the authority to construe a statute is fundamentally different from the authority to fashion a new rule or to provide a new remedy which Congress has decided not to adopt." *Id.*

In the other case cited in *O'Melveny*, *City of Milwaukee v. Illinois and Michigan*, 451 U.S. 304 (1981), the Court held that a comprehensive legislative scheme enacted by Congress displaces previously created federal common-law rights of action. *See id.* at 319 ("The establishment of such a self-consciously comprehensive program by Congress, which certainly did not exist when [the Court created a common-law right of action], strongly suggests that there is no room for courts to attempt to improve on that program with federal common law.") This is an entirely uncontroversial proposition and does not affect in the least our reading of FIRREA.

Our decision in *Diamond* does not (and did not purport to) write federal common law; we did not create a new remedy, cause of action, or rule of decision. We construed the language of a federal statute that by its own terms created a rule of decision; and that enterprise is, and always has been, a matter of federal law. *See Molzof v. United States*, 112 S. Ct. 711, 715 (1992) ("the meaning of the term "punitive damages" as used in [28 U.S.C.] § 2674, a federal statute, is by definition a fed-

eral question"); *Federal Deposit Ins. Corp. v. Philadelphia Gear Corp.*, 476 U.S. 426, 431 (1986) (federal law governs meaning of "deposit" in federal statute); *Reconstruction Finance Corp. v. Beaver County*, 328 U.S. 204, 208 (1946) ("Pennsylvania's definition of 'real property' cannot govern if it conflicts with the scope of that term as used in the federal statute. What meaning Congress intended is a federal question which we must determine."); *Schacht v. Brown*, 711 F.2d 1343, 1347 (7th Cir. 1983) ("the cause of action [at issue] arises under . . . a federal statute; we therefore write on a clean slate and may bring to bear federal policies in deciding the . . . question.") (quoted in *O'Melveny*, 114 S. Ct. at 2053).

Our project in *Diamond* was to construe the term "contract or lease" in order to decide whether the tenancies at issue fall within the scope of the federal statute. We therefore asked "whether the tenancies in question are contractual in nature or whether the various rent regulations transformed these tenancies into some non-contractual, non-leasehold property interest such that they are outside the scope of the statute." 18 F.3d at 118. To answer that question, we looked to generally applicable, long-standing principles of law. *See, e.g., id.* ("[a] tenancy is an interest in the exercise of dominion over property for a fixed or computable duration . . . initiated by a voluntary contractual arrangement between the landlord and tenant . . . ."") (citing Restatement (Second) of Property § 1.4 (1977); N.Y. Gen. Oblig. Law § 5-703 (McKinney 1989)). Our holding—that rent-regulated tenancies are subject to disaffirmation or repudiation by the RTC—was based on the conclusion that these tenancies "are contract-based leaseholds", 18 F.3d at 121, and we therefore rejected New York's argument

that the tenancies were purely creatures of statute outside the reach of § 1821(e).

It is a "settled principle of statutory construction that, absent contrary indications, Congress intends to adopt the common law definition of statutory terms." *United States v. Shabani*, 115 S. Ct. 382, 384 (1994) (citing *Molzof*, 112 S. Ct. at 715). In *Molzof*, the inquiry was "the meaning of the term 'punitive damages' as used in the [Federal Tort Claims Act]." 112 S. Ct. at 714. Although the ultimate issue was the recoverability of certain damages under Wisconsin law, the Court never referred to the law of Wisconsin in defining the term. Rather, it stated that " '[p]unitive damages' is a legal term of art that has a widely accepted common-law meaning; . . . . a long pedigree in the law." *Id.* at 715. The Court looked to generic principles and sources of common law, including definitions contained in editions of law dictionaries current when the statute was adopted. *See id.* (citing to Black's Law Dictionary 501 (3d ed. 1933); The Cyclopedic Law Dictionary 292 (3d ed. 1940)). In so doing, the Court was simply adhering to "[a] cardinal rule of statutory construction":

> '[W]here Congress borrows terms of art in which are accumulated the legal tradition and meaning of centuries of practice, it presumably knows and adopts the cluster of ideas that were attached to each borrowed word in the body of learning from which it was taken and the meaning its use will convey to the judicial mind unless otherwise instructed. In such case, absence of contrary direction may be taken as satisfaction with widely accepted definitions, not as a departure from them.'

Molzof, 112 S. Ct. at 716 (quoting *Morissette v. United States*, 342 U.S. 246, 263 (1952)).

These principles underlie our analysis in *Diamond*. FIRREA grants the RTC power to disaffirm or repudiate any "contract or lease" that it has found to be burdensome. A contract is "[a] promissory agreement between two or more persons that creates, modifies, or destroys a legal relation." Black's Law Dictionary 394 (4th ed. 1951). A lease is a species of contract—an "agreement which gives rise to [the] relationship of landlord and tenant." *Id.* at 1035. The lease is a "[c]onveyance, grant or devise of realty for [a] designated period with reversion to [the] grantor." *Id.* at 1035 (citing *Becker v. Manufacturers Trust Co.*, 30 N.Y.S.2d 542, 544 (N.Y.App.Div. 1941)). The "tenant" is "one who has the temporary use and occupation of real property owned by another person, (called the 'landlord,') the duration and terms of his tenancy being usually fixed by an instrument called a 'lease.' " *Id.* at 1635.

We read New York's submissions to make two arguments in various ways: (1) that rent regulated tenancy in New York is a creature of statute, and fully non-contractual in nature;[3] and (2) that, in any event, nothing in

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[3] Thus, according to New York, a tenant's right to remain in possession of a rent-regulated dwelling derives solely from the emergency rent laws. This is an argument we first encountered and addressed in *Diamond*. Our discussion there reflects our conclusion that, even if New York law were to apply, the outcome would not change:

> The voluntary and contractual aspects of the rent-control [and rent-stabilization] arrangement[s] distinguish [them] from the kind of housing measure invalidated by the New York Court of Appeals as an unconstitutional taking in *Seawall Associates v. City of New York*, 74 N.Y.2d 92, 544 N.Y.S.2d 542, *cert. denied*, 493 U.S. 976 (1989). There, the Court of Appeals struck down a local ordinance requiring owners of properties used as single-room occupancy housing ("SROs") to rehabilitate their buildings for use as SROs indefinitely,

FIRREA allows the RTC to abridge the tenants' statutory right to avoid eviction so long as the state-prescribed rent is paid.

O'Melveny does not make more tenable the argument that these tenancies are statutory and not contractual. First, as discussed above, Congress is presumed to have intended the *common-law* meaning of terms it uses without express definition. A "lease" is a contract conveying a temporary interest in real property, with reversion to the grantor. A contract that is subject to statutory regulation is a contract still. When parties enter into a contract, they are presumed to accept all the rights and obligations imposed on their relationship by state (or federal) law. *Norfolk & Western R. Co. v. American Train Dispatchers Ass'n*, 111 S. Ct. 1156, 1164 (1991); *2 Tudor City Place Associates v. 2 Tudor City Tenants Corp.*, 924 F.2d 1247, 1254 (2d Cir.), *cert. denied*, 112 S. Ct. 83 (1991). With respect to residential tenancies, state law may introduce terms or provisions directly into the contract. *See Diamond*, 18 F.3d at 118 (discussing

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and contrasted that with rent regulations such as those in this case: "[t]he rent-control and other landlord-tenant regulations that have been upheld . . . merely involved restrictions imposed on existing tenancies where the landlords had voluntarily put their properties to use for residential housing." 544 N.Y.S.2d at 548. The SRO ordinance was found to be a *per se* taking because its coercive design eliminated the voluntary and contractual nature of the landlord-tenant relationship, and "'interfere[s] so drastically' . . . with the SRO property owners' fundamental rights to possess and exclude." 544 N.Y.S.2d at 548. . . .

Diamond, 18 F.3d at 121. Because we hold that a rent-regulated tenancy is contractual, we have no occasion now to resolve the issue we framed in *Diamond*: that New York's rent-regulations—were they to fully displace a voluntary and contractual tenancy with a pure statutory right to possession of the property—might be vulnerable to the same takings challenge that succeeded in *Seawall*.

examples of terms imposed on residential leases, as well as certain terms rendered unenforceable by state law).

The tenancies in this case are no different. In each instance, the landlord-tenant relationship was created by a lease, as was the temporary interest in the property. New York's regulations expressly provide that "[t]he provisions of any lease or other rental agreement shall remain in force pursuant to the terms thereof, except insofar as those provisions are inconsistent with the Rent Law or these regulations." N.Y.Comp.Codes R. & Regs. tit. 9, § 2200.13; *see also id.* at § 2520.12 (same). Thus many of the original lease terms are unaffected by New York's rent regulations. Although the landlord-tenant relationship has been made subject to a variety of laws, including the obligations imposed by New York's rent regulations, the tenancy itself—the interest in the property—was created by the lease. Congress could not have intended that the RTC would have the power only to disaffirm or repudiate a piece of paper, or certain sections of that document. Rather, Congress must have intended that the repudiation reach the relationships and interests that the document creates. Section 1821(e) therefore confers the power to repudiate or disaffirm the grant or conveyance of the property interest, *i.e.*, the temporary estate in property held by the tenant. Once this "determination" of the temporary estate has occurred, possession reverts to the holder of the fee simple—the owner, who in this case is the RTC. *See Baker v. Latham Sparrowbush Assoc.*, 808 F. Supp. 992, 1008-09 (S.D.N.Y. 1992) (under N.Y. law, possession reverts to owner upon termination of tenancy); *see also* N.Y. Estates, Powers and Trusts Law § 6-4.4 (McKinney 1992) ("A reversion is the future estate . . . left in the creator . . . upon the simultaneous creation of one or

more lesser estates . . . ."). In short, we reaffirm our original conclusion: the rent regulations at issue here "merely involve[ ] restrictions imposed on existing tenancies . . . ." *Seawall Associates v. City of New York*, 544 N.Y.S.2d 542, 548, 542 N.E.2d 1059, 1064 (N.Y.), *cert. denied*, 493 U.S. 976 (1989). Therefore, the tenancies are fully subject to the RTC's repudiation power.

B. New York's anti-eviction provisions.

In our original opinion we did not address New York's claim that the tenant's statutory freedom from eviction survives repudiation. Under New York's rent regulations, the landlord is forbidden (except under certain limited circumstances) from evicting any tenant who proffers the monthly rent payments in a timely manner. *See* N.Y.Comp.Codes R. & Regs. tit. 9, § 2524.1(a) ("As long as the tenant continues to pay the rent . . . no tenant shall be denied a renewal lease or be removed from any housing accommodation", except on specified grounds) (governing rent-stabilized tenancies); *see also* N.Y.City Admin.Code § 26-408a ("No tenant, so long as he or she continues to pay the rent . . . shall be removed from any housing accommodation which is subject to rent control . . . notwithstanding the fact that the tenant has no lease or that his or her lease . . . has expired or otherwise terminated . . . ."). Do these anti-eviction laws bar the RTC from effecting a complete dissolution of the tenancy? That question requires us to address an issue we did not reach in our prior opinion: "conflict" preemption. *See Diamond*, 18 F.3d at 125 ("Having held that § 1821(e) expressly authorizes RTC to repudiate the tenancies at issue, we have no occasion to reach or address 'conflict' preemption . . . ."). We did not reach the issue because rent-regulated tenancies are contrac-

tual and thus fall within the express scope of FIRREA. We still adhere to this view; however, we should have directly addressed the more narrow question of whether, after repudiation, the RTC is still bound by the rent regulations to accept the state-regulated rent in exchange for the tenant's continued occupation of the property. We do not think that New York's rent regulations bar the RTC from taking steps necessary to fully effect a repudiation of the tenancy.

It is basic that the supremacy clause of the Constitution "invalidates state laws that 'interfere with or are contrary to, the laws of congress . . . .' " *Chicago & N.W. Transp. Co. v. Kalo Brick & Tile Co.*, 450 U.S. 311, 317 (1981) (quoting *Gibbons v. Ogden*, 9 Wheat. 1, 211, 6 L.Ed. 23 (1824)). Although preemption may arise in several ways, only one concerns us: "when the state law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.' " *Michigan Canners & Freezers Assoc., Inc. v. Agricultural Marketing & Bargaining Bd.*, 467 U.S. 461, 469 (1984) (quoting *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941)). Such "conflict" preemption will be found where "state law . . . interferes with the methods by which the federal statute was designed to reach [its] goal." *International Paper Co. v. Ouellette*, 479 U.S. 481, 494 (1987).

The goal of FIRREA is to stem the "financial hemorrhaging" resulting from the large number of failures in the thrift industry. *See Diamond*, 18 F.3d at 113. To that end, "Congress required that RTC conduct its operations 'in a manner which [ ] maximizes the net present value return from the sale or other disposition of' thrift assets that come into its hands." *Id.* (quoting 12 U.S.C. § 1441a(b)(3)(C)(i), and citing S.Rep. No. 19, 101st

Cong., 1st Sess. 352 (1989)). It is pursuant to this overarching mandate that "Congress armed [RTC] with the power to disaffirm or repudiate contracts or leases that RTC in its discretion determines to be burdensome." *Id.* (citing 12 U.S.C. § 1821(e)(1)).

Therefore, the entire purpose underlying RTC's repudiation power is the maximization of return on assets. To that end, Congress conferred on the RTC power to repudiate leases it deems burdensome. Here, the burden is the regulated rent and the diminished asset value that the rent-regulation causes. A state law that obliged the RTC to accept the tenancy in exchange for the regulated rent payment would simply continue the (repudiated) leasehold subject to the same burden. It is obvious that this state of affairs would nullify the FIRREA power to repudiate burdensome leases.

We are mindful that when analyzing a preemption issue we must be more deferential where a state is exercising its traditional police powers. *See, e.g., Cipollone v. Liggett Group, Inc.*, 112 S. Ct. 2608, 2617 (1992); *Ray v. Atlantic Richfield Co.*, 435 U.S. 151, 157 (1978); *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947). But where there is a direct and irreconcilable conflict, the state law must yield. *See Michigan Canners & Freezers*, 467 U.S. at 469. General preemption "principles are not inapplicable here simply because real property law is a matter of special concern to the States: 'The relative importance to the State of its own law is not material when there is a conflict with a valid federal law, for the Framers of our Constitution provided that the federal law must prevail.' " *Fidelity Federal Savings & Loan Assoc. v. De La Cuesta*, 458 U.S. 141, 153 (1982) (quoting *Free v. Bland*, 369 U.S. 663, 666 (1962)).

In this case, the non-eviction aspect of the state's rent-regulation scheme directly interferes with the "accomplishment and execution of the full purposes and objectives of Congress." *Michigan Canners & Freezers*, 467 U.S. at 469 (citations omitted). The tenancies at issue are rooted in contract; RTC has the power to repudiate the contracts, and therefore the underlying tenancies. If the state anti-eviction law were to govern, the repudiation would be fruitless. We therefore hold that, to the extent that the anti-eviction provisions of New York's rent regulations interfere with the operation of § 1821(e), the state regulations and laws are preempted by FIRREA.

C. The "term of the lease."

Having reaffirmed our holding in *Diamond* that these tenancies are subject to repudiation by the RTC, we now address one final issue—the remaining leasehold term. "Once RTC repudiates a lease, a tenant may choose to 'remain in possession of the leasehold interest for the balance of the term of the lease . . . .' " *Diamond*, 18 F.3d at 123 (quoting 12 U.S.C. § 1821(e)(5)(A)(ii)). Although the definition of "term," like that of "contract or lease," is a federal question, the meaning of that word is not at issue; the issue here is the substantive question of the specific time period of the term for rent-regulated tenancies. *O'Melveny* counsels that, where Congress has not provided a specific rule of decision, the courts should look to state law to fill in these interstices. In respect of FIRREA then, what that term is in any particular case, is a matter of contract provisions or state law.

In our prior opinion, we rejected the argument of New York and the tenants that the term of a rent-regulated

lease under New York law is essentially perpetual, lasting for so long as (a) the tenant continues to pay the regulated monthly rent and (b) the World War II housing crisis is perpetuated. *Diamond*, 18 F.3d at 123. We did so because "the power of repudiation under section 1821(e) was conferred in aid of an acute financial emergency, and cannot be construed fairly to accommodate so prolonged a residual tenancy." *Id.* Moreover, we decided that we could not use New York's "statutory occupancy rights to delimit the leasehold for FIRREA purposes" because a perpetual term might run afoul of takings jurisprudence. *Id.* at 123-24 (citing *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 440 (1982); *Block v. Hirsch*, 256 U.S. 135, 157 (1921)).

We adhere to that view. Having held that the RTC has the power to repudiate rent-regulated tenancies, we could not permit the state to nullify the RTC's federal power by imposing a residual lease term that runs in perpetuity; nor, for the same reason, could we accept a term measured by a tenant's willingness to continue to pay rent (at the previous rate). The foregoing discussion of conflict preemption applies with equal force to this issue. Were the term under state law to run in perpetuity, or be subject to the will of the tenant, a situation would arise where "state law . . . interferes with the methods by which the federal statute was designed to reach [its] goal." *International Paper Co. v. Ouellette*, 479 U.S. 481, 494 (1987). A perpetual lease term would cement what the RTC has determined to be a "burdensome" relationship, thereby impeding its efforts to maximize the economic return on assets.[4] Such a result is barred by the

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[4] In their briefs, New York and the tenants equate this view with the "more money" argument rejected in *O'Melveny*. *See* 114 S. Ct. at 2048. We see no parallels. In *O'Melveny*, the federal court presumed that the general goal of asset maximization warranted overriding state-law

doctrine of preemption, because it " 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.' " *Michigan Canners & Freezers*, 467 U.S. at 469 (citations omitted).

For this reason, we held in *Diamond* that the term of a rent-stabilized tenancy would run to the expiration of the current lease. 18 F.3d at 123. For rent-controlled tenancies, looking for the strongest analogy to a lease expiration, we held that "the lease term ends, . . . on the biennial January 1 date on which the landlord next becomes entitled (following the notice of repudiation) to a review of the maximum base rent." *Id.* at 124. On reconsideration, however, we have noticed a potential problem with this holding: if the repudiation occurs immediately prior to that January 1 date, the remaining lease term calculated this way could be as short as several days or weeks. This would, of course, serve the federal scheme. However, this federal scheme is displacing state laws and regulations adopted pursuant to the state's police power. Since preemption is particularly disfavored where a state's police power is at issue, we ought to accommodate—as best as we can—the state interest at stake. *See, e.g.*, *Cipollone*, 112 S. Ct. at 2617 (" 'the historic police powers of the States [are] not to be superseded by . . . Federal Act unless that [is] the clear and manifest purpose of Congress.' ") (quoting *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947)). That state

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defenses to state-law claims; here, Congress has expressly done so. *See* 12 U.S.C. § 1441(b)(3)(C)(i). In *O'Melveny*, the federal court adopted rules of decision to implement that goal; here, the repudiation is effected by the agency itself—pursuant to an express grant of statutory power. In *O'Melveny*, the federal court decided what burdens warranted superseding state common law; here, the RTC is granted express statutory authorization to exercise its discretion in deciding which leases are "burdensome." *See* 12 U.S.C. § 1821(e).

interest looks unfavorably upon remedies which provide for immediate eviction of the tenant. *See*, *e.g.*, *Manocherian v. Lenox Hill Hosp.*, 1994 WL 576191, at * 6 (N.Y. Oct. 20, 1994) ("central, underlying purpose of the [Rent Stabilization Law] is to ameliorate the dislocations and risk of widespread lack of suitable dwellings"); *but see id.* at * 8 ("another goal of the [Rent Stabilization Law] . . . [is] to free up apartments, fairly and appropriately, as soon as practicable").

Fortunately, there is a close analog in state law that balances these competing objectives. In reconsidering our previous opinion, we reviewed legislation, recently enacted in New York, that implements the de-regulation of tenancies for which the monthly rent exceeds $2,000 and the annual family income of the tenant exceeds $250,000 for the two preceding calendar years. *See* 1993 Sess. Law News of N.Y., 216th Legislature, Ch. 253 (McKinney's 1993) (codified at various places in N.Y. Unconsol.L., Tax L.); *see*, *e.g.*, Admin. Code of City of New York §§ 26-403.1 (rent control de-regulation); 26-504.3 (rent stabilization de-regulation). This law calculates when the regulated tenancy expires, after income reporting by tenants in higher-rent dwellings and certification by the landlord to the state that the pre-conditions have been met. For rent-stabilized dwellings, de-regulation occurs "upon the expiration of the lease." Admin. Code of City of New York § 26-504.3(b). That coincides exactly with our ruling in *Diamond*. For rent-controlled dwellings, de-regulation occurs "as of the first day of June in the year next succeeding the filing of the certification of the owner." *Id.* at § 26-403.1. Measured from the date the tenant is required to return the income reporting form to the landlord (no later than May 31), the de-regulation of a rent-controlled tenancy occurs

one year later.[5] In deference to state law (which, under *O'Melveny*, governs this area), we adopt this framework, which is the closest analog we find to the RTC's repudiation of tenancies in this case.

Conclusion

For the foregoing reasons, upon reconsideration after remand, we reinstate our previous opinion, *Resolution Trust Corp. v. Diamond*, 18 F.3d 111 (2d Cir. 1993), except for the holding in respect of the post-repudiation rights of rent-controlled tenants. For each such tenant, the term of the tenancy shall expire one year from the date the tenant was served with notice of the RTC's election to repudiate the lease. The district court is directed to re-enter judgment consistent with our two opinions.

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[5] The law also provides that, where the tenant refuses to return the form to his landlord, the landlord may have the State check the tenant's income tax records and certify that the tenant's income has exceeded the statutory threshold for de-regulation of rent. Admin. Code of City of New York § 26-403.1(c)(1). In such instances, where the tenant fails to cooperate, de-regulation occurs on March 1 of the next year. § 26-403.1(c)(2).

APPENDIX B

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 55—August Term, 1993

(Argued: December 20, 1993 Decided: March 2, 1994)

Docket No. 92-6244

RESOLUTION TRUST CORPORATION, as Receiver for Nassau Savings and Loan Association, F.A.,

Plaintiff-Appellant,

—v.—

SELMA DIAMOND, IRA KAUFMAN, JEROME LEDERER, PEGGY LEHMAN, SUSAN SOLOMON PATULLO, LLOYD RIBNER, as executor of the estate of MURIEL RIBNER, HORACE SOLOMON, LILLIAN SOLOMON, DENISE TUCKER, ANGELO APONTE, Commissioner of the Division of Housing and Community Renewal of the State of New York, and ROBERT ABRAMS, Attorney General of the State of New York,

Defendants-Appellees,

—and—

NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Appellee.

Before:

PRATT, MCLAUGHLIN and JACOBS,
Circuit Judges.

Appeal from a judgment entered in the United States District Court for the Southern District of New York (Carter, *J.*) denying summary judgment to RTC, granting summary judgment to Defendants-Appellees, denying summary judgment to and dismissing RTC's complaint against individual Defendant-Appellee Lloyd Ribner.

Reversed in part, affirmed in part.

DENNIS S. KLINE, Washington, DC (Abraham D. Sofaer, Lawrence F. Bates, Kevin M. Crotty, Hughes, Hubbard & Reed, Washington, DC, Frank H. Penski, New York, NY, Nixon, Hargrave, Devans & Doyle, New York, NY, of counsel), *for Plaintiff-Appellant.*

GARY R. CONNOR, New York (Attorney General's Office, State of New York, New York, NY, Robert A. Machleder, New York, NY, Wien, Malkin & Bettex, New York, NY, Don D. Buchwald, New York, NY, Buchwald & Kaufman, New York, NY, of counsel), *for Defendants-Appellees.*

STEVEN RAISON, New York, NY (Colleen F. McGuire, New York, NY, on the brief), *for Defendant-Appellee Lloyd Ribner.*

JACOBS, *Circuit Judge*:

Resolution Trust Corporation ("RTC") is a government corporation that acts as receiver or conservator for federally-insured thrift institutions in financial distress. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), directs RTC to realize a maximum recovery on the value of the thrift assets that come into its possession, and has conferred on RTC a number of extraordinary powers to help it in doing so. Among the powers granted to RTC by Congress is the power to disaffirm or repudiate the contracts or leases which it finds to be burdensome. RTC came into possession of nine occupied condominium apartments located at 444 East 57th Street in New York City, and has sought to disaffirm or repudiate the nine tenancies, each of which is subject to local and state rent regulation. The United States District Court for the Southern District of New York (Carter, *J.*) granted summary judgment to the tenants and New York State and denied summary judgment to RTC on the ground that the tenancies in question, by virtue of the rent regulation laws, are "statutory" tenancies rather than leases or contracts subject to disaffirmation or repudiation by RTC. We hold that these tenancies are founded upon contract and lease obligations subject to the disaffirmation and repudiation power of RTC, and we therefore reverse.

BACKGROUND

A. FIRREA and RTC

RTC was created by Congress in 1989 as part of a comprehensive legislative initiative to mitigate a financial crisis that had engulfed the thrift industry and the Federal Savings and Loan Insurance Corporation ("FSLIC"). H.R.

Rep. No. 54(I), 101st Cong., 1st Sess. (1989), *reprinted in* 1989 U.S.C.C.A.N. 86, 98. The Government Accounting Office had estimated that FSLIC's operating deficit was $56 billion at the end of 1988. *Id.* at U.S.C.C.A.N. 100; *see also* S. Rep. No. 19, 101st Cong., 1st Sess. 2 (1989) ("Current estimates of the remaining cost to the Federal deposit insurance system of resolving the problem range from $50 billion to more than $150 billion . . . .").

FIRREA, adopted on August 9, 1989, Pub.L. No. 101-73, 103 Stat. 364 (codified in scattered sections of 12 U.S.C.), "constitute[d] emergency legislation" to stop the financial hemorrhaging. S.Rep. No. 19 at 3. As the House Report put it: "The interests of the American taxpayer demand an expedited resolution to the monumental problems involved with the unprecedented costs of dealing with hundreds of insolvent thrifts and the orderly disposition of the assets of these failed institutions." H.R. Rep. No. 54(1) at U.S.C.C.A.N. 104. RTC, a "wholly-owned government corporation," was created "to manage and dispose of the assets acquired from failed thrifts." *Id.*

RTC's primary purpose is to act as conservator or receiver for failed thrift institutions. 12 U.S.C. § 1441a(b)(3)(A) (1989 & Supp.). Congress required that RTC conduct its operations "in a manner which [ ] maximizes the net present value return from the sale or other disposition of" thrift assets that come into its hands. 12 U.S.C. § 1441a(b)(3)(C)(i); *see also* S.Rep. No. 19 at 352 (Congress intended that RTC "conduct its operations so as to maximize recovery on assets it acquires, make efficient use of funds it obtains . . . and minimize losses incurred in resolving cases.").

To help RTC in carrying out this mandate, Congress armed it with the power to disaffirm or repudiate con-

tracts or leases that RTC in its discretion determines to be burdensome. 12 U.S.C. § 1821(e)(1) (made applicable to RTC by 12 U.S.C. § 1441a(b)(4)(A)). The reach of that power is the primary issue on this appeal.

B. Rent Regulations

Owners of residential rental property in New York City have been subject to some form of rent regulation for over fifty years. Originally imposed by the federal government during World War II (Emergency Price Control Act of 1942, Jan. 30, 1942, ch. 26, Title I, § 1, 56 Stat. 23), rent controls were continued by state legislation in 1946 (Emergency Housing Rent Control Law, L. 1946, c. 274 (codified at N.Y. Unconsol. Laws §§ 8581-8597 (McKinney 1987))). Since 1962, the City of New York has enforced its own local rent regulations, which (like the federal and state measures) regulate rents and evictions in privately owned residential housing. Admin. Code of City of N.Y., §§ 26-401-415 (reported following N.Y. Unconsol. Law § 8617 (McKinney 1987)) ("N.Y.C. Admin. Code"). Authorized by the State Legislature, these City laws were enacted pursuant to a City Council finding

> that a serious public emergency continues to exist in the housing of a considerable number of persons in the city, which emergency was created by [World War II], the effects of war and the aftermath of hostilities . . . [and therefore] such action, as a temporary measure to be effective until . . . such emergency no longer exists . . . [requires the council to intervene] to prevent exactions of unjust, unreasonable and oppressive rents and rental agreements
>
> . . . .

N.Y.C. Admin.Code § 26-401. This finding of emergency was renewed most recently by L.1985, c.907 (effective Sept. 1, 1986).

Currently, there are two systems of rent regulation in New York: rent control and rent stabilization. Some of the nine rent-regulated condominium units at issue are rent controlled; the others are rent stabilized.

The maximum rent for each rent-controlled property is set by an administrative board on a biennial basis. N.Y.C. Admin.Code § 26-405a(4), N.Y. Comp. Codes R. & Regs. tit. 9, § 2201.5(a) ("9 NYCRR § __"). Upon certain enumerated contingencies, such as an increase in operating expenses, a landlord may petition the rent control board for an extraordinary increase. N.Y.C. Admin.Code § 26-405g, 9 NYCRR § 2202. So long as the tenant continues to pay the regulated rent, the landlord may not institute eviction proceedings. N.Y.C. Admin.Code § 26-408a. Rent control does not require or contemplate a current written and signed lease. In this way, the rent-controlled tenancy survives the lease-term of the original lease instrument (and any written renewals thereof), and becomes a so-called "statutory" tenancy. *See, e.g., W.T. Associates v. Huston*, 472 N.Y.S.2d 562, 564 (Sup. Ct. 1984).

The second program—rent stabilization—was adopted in 1969 in response to a perceived failure of rent control to adequately relieve the wartime housing emergency. N.Y.C. Admin.Code §§ 26-501-520 (McKinney 1987); *see 8200 Realty Corp. v. Lindsay*, 313 N.Y.S.2d 733, 742 (1970). Unlike rent control, rent stabilization does require and contemplate a current written lease-contract, 9 NYCRR § 2522.5, and requires the landlord to offer a renewal lease to the tenant before the end of each lease

term. N.Y.C. Admin.Code § 26-511c(4), 9 NYCRR § 2522.5(b)(1). In that way, the rent-stabilized tenant, like his rent-controlled neighbor, enjoys occupancy for so long as he wishes. The City's rent guidelines board regularly fixes the maximum rent increase for one-year and two-year leases, N.Y.C. Admin.Code § 26-512, the allowable percentage increase being based in part on market conditions. N.Y.C. Admin.Code § 26-510b, 9 NYCRR §§ 2521-22. It was thought that by adopting a regulatory scheme more sensitive to market prices, and giving property owners (at that time) a choice between rent control and stabilization, new construction would flourish and the persistent housing emergency would abate. *8200 Realty Corp.*, 313 N.Y.S.2d at 742-43. However, the wartime housing emergency has been found to continue to this day, leaving most rental properties in New York subject to what the state's Court of Appeals once characterized as "an impenetrable thicket, confusing not only to laymen but to lawyers." *In Matter of 89 Christopher, Inc. v. Joy*, 360 N.Y.S.2d 612, 618 (1974).

C. Martin Act

Rent regulation is also implemented by certain provisions of New York's blue sky law, the Martin Act. N.Y. Gen. Bus. Law, Art. 23-A, §§ 352-359-h (McKinney 1984). Essentially an antifraud securities statute, *see Abrams v. Long Beach Oceanfront Associates Limited Partnership*, 518 N.Y.S.2d 323, 325 (N.Y. Sup. Ct. 1987), the act regulates (*inter alia*) the offer and sale of securities evidencing an ownership interest in residential real property that has undergone a conversion to condominium or cooperative ownership. When the owner of an apartment building proposes such a conversion, the Martin Act mandates the inclusion of certain disclosures in the var-

ious offering documents. Among other things, the offeror is required to disclose the conditions under which eviction proceedings may be instituted against non-purchasing tenants, and the extent to which state and local rent-regulations will continue to apply to such tenancies. N.Y. Gen. Bus. Law § 352-eeee2(c).

In any conversion of a residential building to cooperative or condominium status, the offer or sale of the underlying securities is illegal unless the offering statement has been filed with the State Attorney General. N.Y. Gen. Bus. Law § 352-e1(a). No offer is considered to have been officially filed without a letter from the State Attorney General to the offeror certifying that the offeror has complied with all relevant provisions of the Martin Act. N.Y. Gen. Bus. Law § 352-e2. The Attorney General is directed to withhold the letter of certification until he finds that the offering materials comply with the Martin Act, including the disclosures concerning the treatment of non-purchasing tenants. N.Y. Gen. Bus. Law § 352-eeee2.

D. The Tenancies

The individual appellees in this case are tenants in a residential building at 444 East 57th Street in New York City. Appellee Lloyd Ribner claims status as a tenant, which RTC disputes—a collateral issue we address in a separate section of this opinion. Since we reverse the order dismissing RTC's complaint against Ribner, this opinion is fully applicable to him, except to the extent we indicate otherwise.

In 1983 the building underwent a conversion to condominium ownership, pursuant to a "non-eviction" plan under the Martin Act. N.Y. Gen. Bus. Law § 352-eeee2(c). In accordance with the disclosure requirements of this

statute, non-purchasing tenants, including the nine appellees in this case, were informed in the conversion plan offering documents that they could remain in their apartments, that (pursuant to this plan) they would not be evicted, and that any rent regulations governing their tenancies would continue to apply after the conversion was complete.

E. RTC's Repudiation

In or about 1984, the plan sponsor pledged these nine apartments to Nassau Federal Savings and Loan Association as collateral for a loan of $3.2 million. When the sponsor defaulted in the summer of 1987, title to the nine apartments passed to Nassau Federal S & L. Pursuant to FIRREA, the Office of Thrift Supervision ("OTS") appointed RTC receiver of Nassau Federal S & L in March 1990. RTC then reorganized Nassau Federal S & L as a new thrift institution called Nassau Savings and Loan Association, F.A. At about the same time, OTS appointed RTC conservator of this new institution. On November 16, 1990, OTS issued Resolution Number 90-2003, providing that Nassau Savings and Loan would be closed, and appointing RTC as receiver. RTC is now responsible as receiver for disposing of the assets of this now-closed institution in a manner consistent with the requirements of FIRREA.

RTC sent the tenants two letters of repudiation, the first as conservator, the second as receiver. In the summer of 1990, RTC as conservator determined it was suffering a net operating loss as landlord of these nine units. On the basis of that loss (which was later calculated to be approximately $18,924 per month), RTC determined that the nine tenancies were burdensome within the meaning of 12 U.S.C. § 1821(e)(1)(B), and notified each tenant in

writing that RTC was repudiating the tenancy. It further advised that, pursuant to FIRREA, each tenant had the option of (a) treating the tenancy as terminated, (b) remaining in possession for the balance of the lease-term, or (c) purchasing the unit on stated terms.[1]

The nine tenants rejected the alternative offers made by RTC, and disputed RTC's power to repudiate their tenancies. Several of them filed complaints against RTC with the New York Division of Housing and Community Renewal ("DHCR"), to which complaints RTC responded that DHCR was "without jurisdiction over the RTC and this matter." The New York Attorney General then protested by letter to RTC that it had exceeded its power in repudiating tenancies protected by New York's Martin Act and the various rent laws and regulations. In response to the concerns raised by the Attorney General, RTC adopted a policy statement assuring New York that RTC would not repudiate the leases of low-income and moderate-income tenants. *See* RTC Statement of Policy for the Disposition of Residential Units Which Were Previously Subject to Rent or Securities Regulations (February 22, 1991) ("Statement of Policy"). In its second letter to the tenants, RTC advised that, pursuant to its Statement of Policy, no tenant of low-income or moderate-income would be subject to lease repudiation. The Statement of Policy declares that RTC will not repudiate the tenancy of any "individual whose income does not exceed 115% of the median income in the area involved, as determined by the U.S. Secretary of Housing and Urban Development, with adjustments for family size." Counsel for the New York Attorney General estimated at oral argument that the

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[1] Ribner contends that any such correspondence was sent to his deceased mother, Muriel Ribner. As we discuss below, with respect to this individual, that contention has no material effect on this appeal.

Statement of Policy would protect New York City residents with income (before family size adjustments) of up to approximately $45,000. It does not appear from the record, nor does any appellee contend, that any of the nine tenants at 444 East 57th Street are persons of low or moderate income.

F. Procedural Events

On February 25, 1991, RTC filed a complaint naming as defendants the nine individual tenants, as well as Angelo Aponte (Commissioner of DHCR), and Robert Abrams (Attorney General of the State of New York). The complaint sought a declaration that RTC has the power to repudiate the tenancies in question, and an order of eviction against Ribner, who (the complaint alleged) holds no valid interest in the tenancy of his mother's apartment. RTC sought other relief as well, which we expressly decline to address. Soon thereafter, the Attorney General and DHCR filed a complaint against RTC, alleging that RTC lacked the statutory authority to pursue its claims, and requesting declaratory and injunctive relief against RTC. These actions were subsequently consolidated.

In February 1992, the parties filed cross-motions for summary judgment: RTC requested that the district court grant it the relief prayed for in its complaint; the Attorney General and DHCR asked for a declaration that RTC lacked statutory authority to evict "non-purchasing, rent-controlled or rent-stabilized tenants from condominium or cooperative units in buildings converted to condominium or cooperative status under a non-eviction plan filed . . . pursuant to [the Martin Act]," and also requested a permanent injunction barring RTC from pursuing its claims. In addition, Ribner moved to dismiss RTC's complaint against him, and defendant Susan Patullo filed a motion to

either dismiss RTC's complaint or, in the alternative, grant her summary judgment. (Patullo's motion apparently was never addressed below.) On August 21, 1992, after full briefing and argument, the District Court issued an opinion (a) granting New York's motion, (b) denying RTC's motion, and (c) granting Ribner's motion to dismiss the complaint against him. *Resolution Trust Corp. v. Diamond*, 801 F. Supp. 1152 (S.D.N.Y. 1992).

In its opinion, the district court framed and answered two questions: "1) whether the tenants in this case have occupancy rights by virtue of leases or instead pursuant to statutory tenancies independent of any leases; and, 2) if these rights derive from statutory tenancies, whether the 'any contract or lease' language of section 1821(e)(1) empowers the RTC to repudiate statutory tenancies . . . ." 801 F. Supp. at 1157. In addressing the first question, the district court examined the rent control and rent stabilization programs, as well as the Martin Act, and determined that tenants under these various schemes "enjoy occupancy rights that are independent of any lease they may have with their landlords, in this case the RTC." 801 F. Supp. at 1159. It then held that, because the nine tenants enjoy "rights of occupancy created by state statute and independent of any contract or lease between the landlord and tenant," those rights cannot be repudiated under "the plain language" of FIRREA authorizing RTC to repudiate "any contract or lease." 801 F. Supp. at 1161.

Having held that these tenancies were not within the scope of the express language of the statute, the district court went on to address RTC's alternative argument that there is an irreconcilable conflict between the state laws and FIRREA, such that application of the state regulations would obstruct RTC's operation under FIRREA. Applying "conflict preemption" analysis, the district court con-

cluded that insofar as the statute did not expressly include "statutory" tenancies within its scope, it could not be construed to grant RTC any power with respect to these tenancies: "[s]ince the power prohibited by state law in this case was never granted to the RTC in the first place, no preemption of state law is possible here." 801 F. Supp. at 1164. Finally, the district court refused to grant summary judgment to either side on RTC's claim against Ribner, but did grant Ribner's motion to dismiss the complaint against him.

On appeal, RTC asserts express authorization in FIRREA allowing RTC to repudiate rent-regulated tenancies that it determines to be burdensome. RTC also argues that New York's rent regulations directly conflict with RTC's statutory mandate to maximize asset values and that, because compliance with both the state and federal laws is—with respect to these tenancies—impossible, the Supremacy Clause of the Constitution requires a finding that RTC's power to repudiate the leases of "non-needy" tenants preempts any non-federal rent regulation. We hold that these tenancies are grounded in a contract or lease and therefore fall within the express language of FIRREA and its grant to RTC of the power to repudiate "contracts or leases." Because we find that repudiation of these tenancies is within the scope of the express statutory grant of power to RTC, we find it unnecessary to reach the issue of "conflict preemption."

Accordingly, we reverse the district court's order, and direct that judgment be entered for RTC as to its power of repudiation. With respect to Ribner, we find that, although the district court was correct in denying the cross-motions for summary judgment, RTC did state a claim upon which relief may be granted, and we therefore vacate the dis-

missal of RTC's complaint against Ribner and remand for further proceedings.

ANALYSIS

A. FIRREA

RTC's power to repudiate contracts and leases was conferred by Congress as a tool for maximizing net asset values. The power is described in section 11 of the Federal Deposit Insurance Act ("FDIA"):

> In addition to any other rights a conservator or receiver may have, the conservator or receiver for any insured depository institution may disaffirm or repudiate any contract or lease—
>
> (A) to which such institution is a party;
>
> (B) the performance of which the conservator or receiver, in [its] discretion, determines to be burdensome; and
>
> (C) the disaffirmance or repudiation of which the conservator or receiver determines, in [its] discretion, will promote the orderly administration of the institution's affairs.

12 U.S.C. § 1821(e)(1). FIRREA expressly applies this provision to RTC. 12 U.S.C. § 1441a(b)(4)(A). It is unquestionable that this provision grants RTC full discretionary power to disaffirm or repudiate any burdensome executory contract or lease. *See, e.g., Resolution Trust Corp. v. CedarMinn Building Ltd. Partnership*, 956 F.2d 1446, 1456 (8th Cir.), *cert denied*, 113 S. Ct. 94 (1992). This appeal therefore turns on whether the tenancies in question are contractual in nature or whether the various rent regulations transformed these tenancies into

some non-contractual, non-leasehold property interest such that they are outside the scope of the statute.

For these purposes, the definition of the phrase "contract or lease" is a matter of federal law. *See, e.g., Pennsylvania Dep't of Public Welfare v. Davenport*, 495 U.S. 552, 557-8 (1990) ("Our construction of the term 'debt' [in the Bankruptcy Code] is guided by the fundamental canon that statutory interpretation begins with the language of the statute itself."); *Federal Deposit Ins. Corp. v. Philadelphia Gear Corp.*, 476 U.S. 426, 431 (1986) (federal law governs meaning of "deposit" in federal statute). Although we are not bound by any state court pronouncements regarding the breadth or scope of these terms, we do consult for guidance the body of New York law concerning the design and operation of the rent regulation programs at issue. We also, of course, continue to defer to state courts' pronouncements regarding the definition of property interests. *See Butner v. United States*, 440 U.S. 48, 55 (1979). However, as we fully explain below, were we to find that New York law creates "statutory" tenancies not ultimately based on a lease or other voluntary contractual arrangement, we would have to consider whether such a statutory grant of a property interest amounts to the taking of private property without just compensation, in violation of the Fifth and Fourteenth Amendments to the United States Constitution.

B. Regulated Tenancies

A tenancy is an interest in the exercise of dominion over property for a fixed or computable duration. Restatement (Second) of Property § 1.4 (1977). A tenancy is initiated by a voluntary contractual arrangement between the landlord and tenant, typically memorialized in a written and signed lease. *See, e.g.*, N.Y. Gen. Oblig. Law § 5-703

(McKinney 1989) (tenancy for period exceeding one year must be evidenced by writing, signed by party to be charged). In many states, however, it is possible to create a tenancy of short duration by oral lease agreement, without any written evidence of the terms. *Id.*; *see also* Restatement (Second) of Property § 2.1.

Only two terms are indispensable to the creation of a tenancy: the duration, or "term"; and the price, or "rent". In addition, lease terms typically impose other obligations on the landlord (such as the provision of various services, doormen, appliances, lighting of common areas, *etc.*) and on the tenant (such as maintaining the premises, avoiding excessive noise, timely reporting any needed repairs, *etc.*). The bundle of rights and duties will vary from tenancy to tenancy—the only common denominator being that every contract will specify rent and duration.

Although tenancy is premised on a voluntary contractual arrangement, certain obligations may be affected by operation of law. For example, regardless of any express terms to the contrary, virtually all states read a warranty of habitability into residential lease-contracts. *See*, *e.g.*, N.Y. Real Prop. Law § 235-b (McKinney 1989); Restatement (Second) of Property § 5.1 (reporter's note listing states). Moreover, some states prohibit or refuse to enforce certain lease clauses. *See*, *e.g.*, Conn. Gen. Stat. Ann. § 47a-4 (West 1993) (unenforceable clauses include confession of judgment and tenant's consent to distraint of personal property). While these laws change the obligations of nonconforming contracts, the voluntary and contractual nature of the relationship remains. All terms unaltered by law continue to be enforceable obligations, and each party is free to continue or discontinue the tenancy in accordance with the terms of the contract.

New York and the nine tenants contend that New York's tight net of regulation creates a statutory tenancy that is in effect non-contractual, and beyond the reach of RTC's repudiation power. We address below each of the three regulatory systems cited and relied upon by New York and the rent-regulated tenants: (1) rent stabilization; (2) rent control; and (3) The Martin Act.

1. *Rent Stabilization*

New York's rent stabilization laws regulate the two terms at the core of the landlord-tenant relationship: rent and duration. The regulations govern the initial rent, N.Y.C. Admin.Code § 26-512b, 9 NYCRR § 2521, restrict rent increases, N.Y.C. Admin.Code § 26-512a, 9 NYCRR § 2522, mandate lease renewal, N.Y.C. Admin.Code § 26-511c(4), 9 NYCRR § 2522.5(b)(1), and, upon the tenant's vacating of the premises, allow the tenancy to pass statutorily to certain members of the tenant's household so long as that individual has lived with the tenant since the inception of the tenancy or, in the case of the death of the tenant, for at least the two years immediately preceding the tenant's demise. 9 NYCRR § 2523.5(b).

Landlord compliance with this scheme is enforced chiefly by limiting the grounds for eviction: "As long as the tenant continues to pay the rent . . . no tenant shall be denied a renewal lease or be removed from any housing accommodation" except on specified grounds. 9 NYCRR § 2524.1(a). Such grounds include the owner's desire to take possession for the owner's own use as a primary residence (§ 2524.4), and certain wrongful acts by the tenant (§ 2524.3). A landlord who fails to proffer a renewal lease will get no increase in rent until he comes into compliance with the Code. 9 NYCRR § 2522.5(b)(2). The incentive in

this provision ensures that virtually all rent-stabilized tenancies will be governed by a written lease-contract.

Rent stabilization is therefore lease-based in the sense that it operates through the regulation of lease terms. The program contemplates and requires a written lease-contract as the basis of tenancy. *See* 9 NYCRR § 2520.12 ("The provisions of any lease or other rental agreement shall remain in force pursuant to the terms thereof, except insofar as those provisions are inconsistent with [the rent regulations] . . ."). While statutory provisions alter or restrict important terms of the contract, the tenancy retains much of the character of a voluntary contract. Rent-stabilized tenancy is dependent upon a lease in these ways, and therefore is subject to RTC's repudiation power under § 1821(e).

2. *Rent Control*

New York's rent control statute does not contemplate or require a current written lease of the premises. Even though the original tenancies were created by written lease-contracts years (often decades) earlier, the landlord under rent control is not required to proffer a renewal lease at expiration, and the rent-control tenant is not required to sign one. So long as the tenant pays the rent, the landlord may not evict: "No tenant, so long as he or she continues to pay the rent . . . shall be removed from any housing accommodation which is subject to rent control . . . notwithstanding the fact that the tenant has no lease or that his or her lease . . . has expired or otherwise terminated . . . ." N.Y.C. Admin.Code § 26-408a. The district court concluded therefore that the rent-controlled tenancy is something distinct from a property interest under a lease or contract. We disagree.

The rent-controlled tenancy bears many of the hallmarks of a contractual relationship. Indeed, it is difficult to see any other lawful basis for the landlord-tenant relationship. Under rent control, the landlord and tenant owe mutual obligations: the tenant is obligated to pay rent, and the landlord is obligated to provide a bundle of rights and services. The regulations provide that a landlord may not reduce the level of services that were provided to the tenant under the initial tenancy-creating contract. 9 NYCRR § 2201.2 ("Every landlord shall furnish with housing accommodations the same dwelling space and the same essential services, furniture, furnishings and equipment as were furnished, or required to be furnished, on April 20, 1962 or any subsequent date determining the maximum rent."). The kind, level and schedule of services that the landlord owes the rent-control tenant is therefore determined by reference to the original lease-contract creating the tenancy. *See* 9 NYCRR § 2200.13 ("The provisions of any lease or other rental agreement shall remain in force pursuant to the terms thereof, except insofar as those provisions are inconsistent with the Rent Law or these regulations."). Taken together, these two provisions enforce many of the original contractual elements of the tenancy. This being so, the landlord-tenant relationship is defined and governed by contract, rent control notwithstanding.

The courts of New York recognize that the terms of the last written lease continue to remain in effect under rent control. In *Barrow Realty Corp. v. Village Brewery Restaurant, Inc.*, 70 N.Y.S.2d 545, 546 (App.Div. 1947), New York's intermediate appellate court considered whether or not a provision of the original lease (providing that the tenant shall pay the landlord's attorney fees in a proceeding brought because of tenant's default) survived the lease expiration, and concluded that "the clause . . .

is carried over, as are other provisions of the lease, to the tenant's occupancy during the period in which he remains in possession under the emergency rent law after the expiration of the term of the lease." The absence of any current written lease notwithstanding, the court held:

> Default in the payment of the emergency rent is not merely a statutory default; it is a default under the lease . . . . [T]he continued occupancy permitted by the statute stems from the lease and the tenancy created thereby, and the emergency rent is fixed on the basis of the rental established in the lease. With the terms of the lease otherwise remaining in force, it may not fairly be said that the rent payable during the emergency period is merely a statutory rent and is not under the lease.

Id.; *see also Hudson View Properties v. Weiss*, 442 N.Y.S.2d 367, 370 (App.Term 1981) ("In the case of a statutory tenancy . . . 'with the exceptions of the duration of the term, and the amount of rent payable, the rule established by the weight of authority is that insofar as the provisions of a lease which has expired are not in conflict with the then prevailing emergency rent statutes, and are not confined to the period of the expired lease, they are projected into the statutory tenancy, and will continue in effect during the term of the statutory tenancy.'" (quoting Rasch, *New York Landlord and Tenant*, 2d Ed., § 286)), *rev'd*, 448 N.Y.S.2d 649 (App.Div. 1982), *rev'd*, 463 N.Y.S.2d 428 (1983); *130 West 57 Corp. v. Hyman*, 66 N.Y.S.2d 332, 334 (App.Term 1946) ("The housing emergency calls for such stringent measures but it would be carrying the protection afforded a tenant to an unfair degree to hold that the obligations of the tenancy incorporated in the lease do not govern the relationship of landlord and tenant . . . . [T]he rights and obligations of the

parties under the lease are projected into and become part of the statutory tenancy, except where they are plainly inconsistent with the Act.").[2]

Rent control, like rent stabilization, affects the lease by statutorily altering and specifying certain terms, chiefly by granting the tenant a statutory renewal option. That option to renew is exercised, at least tacitly, when the tenant continues in occupancy after receiving notice of the biennial rent adjustment made pursuant to the statute and regulations, N.Y.C. Admin.Code § 26-405a(4), 9 NYCRR § 2201.5, thereby agreeing to pay the new rent during the next two years. But rent control does not obliterate the lease.

Even were we to agree with New York that a rent-controlled tenancy is independent of any lease (which we do not), we would still hold that it is sufficiently rooted in contract to fall within the express language of FIRREA. While these tenancies are tightly regulated and policed, such a regime does not eliminate the contractual nature of the relationship, any more than do the regulatory schemes governing the provision of such services as electric power, natural gas, medallion taxi rides, or cable television. Some contracts are more heavily regulated than others, but they are not thereby transformed into something non-contractual or super-contractual.

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[2] *See also 65 Central Park West, Inc. v. Greenwald*, 486 N.Y.S.2d 668, 672 (N.Y. City Civ.Ct. 1985) ("The fact that the original lease has expired is irrelevant because the terms and conditions of that lease are said to continue in the context of the rent controlled statutory tenancy." (citation omitted)); *Stephen Estate, Inc. v. Kaplan*, 100 N.Y.S.2d 455, 460-61 (N.Y. City Mun.Ct. 1950) ("The conventional relationships of landlord and tenant, with privity of contract and privity of estate, existed . . . prior to the expiration of the lease. That under the Emergency Housing Laws, the provisions of a lease, except for the term and the rent reserved are projected into and become a part of the statutory tenancy is now beyond question." (citations omitted)).

The voluntary and contractual aspects of the rent-control arrangement distinguish it from the kind of housing measure invalidated by the New York Court of Appeals as an unconstitutional taking in *Seawall Associates v. City of New York*, 544 N.Y.S.2d 542, *cert. denied*, 493 U.S. 976 (1989). There, the Court of Appeals struck down a local ordinance requiring owners of properties used as single-room occupancy housing ("SROs") to rehabilitate their buildings for use as SROs indefinitely, and contrasted that ordinance with rent regulations such as those at issue in this case: "[t]he rent-control and other landlord-tenant regulations that have been upheld . . . merely involved restrictions imposed on existing tenancies where the landlords had voluntarily put their properties to use for residential housing." 544 N.Y.S.2d at 548. The SRO ordinance was found to be a *per se* taking because its coercive design eliminated the voluntary and contractual nature of the landlord-tenant relationship, and " 'interfere[s] so drastically' . . . with the SRO property owners' fundamental rights to possess and to exclude." 544 N.Y.S.2d at 548 (quoting *Nollan v. California Coastal Comm'n.*, 483 U.S. 825, 836 (1987), and citing *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 435-36 (1982)).

We conclude, therefore, that New York's statutory tenancies—whether under rent stabilization or rent control—are contract-based leaseholds. That being the case, they fall within the express language of § 1821(e), and are subject to RTC's statutory power to repudiate. By repudiating the contract or lease creating the tenancy, RTC is effectively dissolving the tenancy. Once it has done so, no statutory or regulatory provision—at least none that can pass constitutional muster—can revive that tenancy.

3. *The Martin Act*

The Martin Act, New York's blue sky law, alters our analysis not at all. "[N]o private action has been expressly authorized" in the Martin Act. *CPC Int'l Inc. v. McKesson Corp.*, 519 N.Y.S.2d 804, 807 (1987). "[T]he specific purpose of the statute was to create a statutory mechanism in which the Attorney-General would have broad regulatory and remedial powers to prevent fraudulent securities practices . . . ." *Id.* Most enforcement of the Martin Act is in the hands of the Attorney General, usually by means of a fraud action.

The Martin Act requires the offeror to reassure tenants in the offering documents that their rights under rent regulation will survive if they do not buy their apartments. The Act does not add to those rights in any way, however. The Attorney General enforces the offeror's obligation by his power to control the sale of securities. Thus the Martin Act forbids the sale of the cooperative or condominium shares unless the offering documents have been certified for filing by the Attorney General (and filed), and prohibits the Attorney General from certifying the offering documents for filing unless they contain the requisite disclosures and assurances. N.Y. Gen. Bus. Law § 352-eeee2.

The Martin Act thus does no more than require that certain statements be included in the offering documents. It creates no private affirmative right and no private right of action. *Rego Park Gardens Owners, Inc. v. Rego Park Gardens Associates*, 595 N.Y.S.2d 492, 494 (App.Div. 1993) ("It is now well settled that there is no private cause of action under the Martin Act.") (citing *CPC Int'l v. McKesson Corp.*, 519 N.Y.S.2d 804 (1987); *Vermeer Owners v. Guterman*, 578 N.Y.S.2d 128 (1991); *Board of*

Managers of Fairways at North Hills Condominium v. Fairways at North Hills, 545 N.Y.S.2d 343 (App.Div. 1989)). Non-purchasing tenants of a condominium subject to a Martin Act conversion plan hold their tenancies by contract (however that contract may have been shaped and extended by legislation), and these tenancies are therefore subject to repudiation by the RTC.

C. Congressional Intent

If it chooses, Congress can grant disaffirmation or repudiation power in a way that preserves state regulated leases and contracts. For example, under the Bankruptcy Code a trustee in bankruptcy is granted power to "assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. § 365(a). In *In re Friarton Estates Corp.*, 65 B.R. 586 (Bankr. S.D.N.Y. 1986), the court held that a debtor-lessor could not use that provision to repudiate leases that were subject to New York's rent control laws. New York's brief on the present appeal, and the opinion of the district court, rely heavily on *Friarton*. However, as Bankruptcy Judge Prudence Abram noted in *Friarton*, the Bankruptcy Code includes an express provision allowing the tenant to effect "any renewal or extension of such term that is enforceable by such lessee under applicable nonbankruptcy law." 65 B.R. at 593 (quoting 11 U.S.C. § 365(h)(1)). *Friarton* bars the debtor from exercising the power to repudiate leases that are rent-controlled or rent-stabilized, because the tenant's right to renew and extend the tenancy is conferred by "applicable nonbankruptcy law".

The express deference to "applicable nonbankruptcy law" in the Bankruptcy Code which saves from repudiation lease renewal rights enforceable under rent control, has no counterpart in FIRREA or FDIA. The bankruptcy

provision has been in the Code since its inception in 1978. Pub.L. No. 95-598, 92 Stat. 2574 (1978). When Congress enacted FIRREA in 1989, Congress borrowed and adopted many of the provisions of the Bankruptcy Code dealing with a lessee's rights when the debtor-lessor rejects a lease contract. *See* S.Rep. No. 19 at 314 (12 U.S.C. § 1821(e) was "closely modeled on parallel provisions of section 365 of the Bankruptcy Code."). It is telling that the only relevant feature that Congress omitted from 12 U.S.C. § 1821(e)(5) was the one that grants the lessee a right to exercise his renewal or extension options under "applicable nonbankruptcy law."[3] This alone strongly signifies Congressional intent to grant RTC greater powers in this respect than those given to a bankrupt debtor. *See Wheeler v. Greene*, 280 U.S. 49, 51 (1929) ("When so important a grant of power contained in the prototype is left out from the copy it is almost impossible to attribute the omission to anything but design, or to believe that it left to very attenuated implications what the model before it so clearly expressed.").

The textual distinction between FIRREA/FDIA and the Bankruptcy Code is reinforced by functional considerations. Without the deference to "applicable nonbankruptcy

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[3] *Compare* 11 U.S.C. § 365(h)(1) ("If the trustee rejects an unexpired lease of real property of the debtor under which the debtor is the lessor . . . the lessee . . . may treat such lease . . . as terminated by such rejection . . . or, in the alternative, the lessee . . . may remain in possession of the leasehold . . . for the balance of such term and for any renewal or extension of such term that is enforceable by such lessee . . . under applicable nonbankruptcy law.") *with* 12 U.S.C. § 1821(e)(5)(A) ("If the conservator or receiver repudiates an unexpired written lease of real property . . . the lessee under such lease may either—(i) treat the lease as terminated by such repudiation; or (ii) remain in possession of the leasehold interest for the balance of the term of the lease unless the lessee defaults under the terms of the lease after the date of such repudiation.").

law" in the Code, prospective bankrupts could achieve solvency by acquiring rent-regulated properties before filing under Chapter 11 so that the rent-regulated leases could be alchemized by repudiation. Thus the Code's bar on the repudiation of rent-regulated leases prevents the use of the bankruptcy process as a device for emptying rent-controlled properties.

These same concerns do not arise in the FIRREA context. RTC does not acquire properties for speculation and is not actively seeking to acquire rent-regulated properties in order to repudiate leases. Under its statutory mandate, RTC simply disposes of properties that come into its hands from failed financial institutions. Absent any likelihood of predatory behavior by RTC as receiver or conservator, there was no reason for Congress to restrict the kinds of tenancies subject to its repudiation powers, and every reason for Congress to strengthen RTC's hand in remedying a national economic emergency.

D. Post-Repudiation Occupancy Rights

Once RTC repudiates a lease, a tenant may choose to "remain in possession of the leasehold interest for the balance of the term of the lease . . . ." 12 U.S.C. § 1821(e)(5)(A)(ii). New York and the tenants argue that, even if a statutory tenancy is a leasehold, New York law makes the leasehold perpetual, and that RTC therefore is not entitled to evict them even if RTC has power to repudiate the leases. If the leasehold were truly perpetual, this argument would mandate affirmance of the result reached by the district court.

How long is "the balance of the term of the lease" when the RTC repudiates a rent-regulated New York tenancy? Since tenancies under the rent stabilization law are

expressly lease-based, § 1821(e)(5)(A)(ii) allows the tenant to continue the tenancy on existing terms until the end of the lease term during which the notice of repudiation is given.

Rent-controlled tenancies, however, do not run for any specified term. There are two conceivable arguments for the idea that the term is perpetual: first, by analogy to perpetual written leases under New York law; second, by reference to the potentially lifelong and inheritable nature of rent-controlled occupancy.

Under New York law, a perpetual lease can be created by the grant of a fee interest in property coupled with the grantor's reservation of a right to collect rent forever. *See First Religious Society in Whitestown v. Socony Mobil Oil Co.*, 253 N.Y.S.2d 839, 842 (Sup. Ct. 1964) (grant of fee interest in property, where grantor reserves right to collect rent in perpetuity, creates landlord-tenant relationship under a perpetual lease). Such an arrangement, however, is disfavored by the law and can come into being only if the lease itself clearly provides for perpetual tenancy. *See Garner v. Gerrish*, 483 N.Y.S.2d 973, 975 (1984). In the absence of an express lease duration (or an express term of perpetuity), New York law assigns a lease term, usually a short one. *See* N.Y. Real Prop. Law § 232 (McKinney 1989) (where parties fail to specify, lease of New York City property ends October 1 following possession); *see also* Restatement (Second) of Property § 1.5, and Comment (d) to that section ("Where the parties enter into a lease of no stated duration and periodic rent is reserved or paid, a periodic tenancy is presumed. The period thus presumed is equal to the interval for which rent is reserved or paid to a maximum periodic tenancy of year to year."); N.Y. Real Prop. Law §§ 232-a (notice to terminate month to month tenancy in New York City), 232-c (holding over

of tenant after expiration of term; effect of landlord's acceptance of rent); *28 Mott Street Co. v. Summit Import Co.*, 310 N.Y.S.2d 93 (App.Div. 1970) (occupancy of premises for six years, bimonthly payments and unexecuted ten year lease, together created year to year tenancy), *aff'd*, 319 N.Y.S.2d 65 (1971).

New York contends that a rent-controlled lease term ends when the right of occupancy ends, which would allow a repudiated lease to run under § 1821(e)(5)(A)(ii) for the lives of the tenant, the tenant's spouse or life companion, and of their issue. However, the power of repudiation under section 1821(e) was conferred in aid of an acute financial emergency, and cannot be construed fairly to accommodate so prolonged a residual tenancy. In any event, we cannot use these statutory occupancy rights to delimit the leasehold for FIRREA purposes because the statutory tenancy is by definition limited to the life of the statute, and therefore cannot outlive the declared end of the wartime housing emergency that the statute purports to remediate. Moreover, the temporary nature of the rent control laws is needed to insulate them from constitutional challenge. *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 440 (1982) ("This Court has consistently affirmed that States have broad power to regulate . . . the landlord-tenant relationship . . . . In none of these cases, however, did the government authorize the permanent occupation of the landlord's property by a third party." (citations omitted)); *Block v. Hirsch*, 256 U.S. 135, 157 (1921) ("A limit in time, to tide over a passing trouble, well may justify a law that could not be upheld as a permanent change.").

Rent-controlled tenancy under New York law is therefore neither perpetual nor measured by the life of the tenant (and the tenant's successors). New York law provides

two intervals that can be used to fix the term of a rent-controlled tenancy. Under N.Y. Real Prop. Law § 232, a lease agreement for real property in New York City that fails to specify a duration is deemed to end on the October 1 next following the date that the tenant occupies the premises. That rule, however, is evidently designed to supply a missing term in an unregulated contract. Since a specific body of New York law regulates rent-controlled tenancies, and since that body of law extended the tenancy, we first consider whether that body of law divides the tenancy into periods analogous to lease terms. Since it does, we look no further. Under rent control the lease term ends, for purposes of § 1821(e), on the biennial January 1 date on which the landlord next becomes entitled (following the notice of repudiation) to a review of the maximum base rent. *See* N.Y.C. Admin.Code § 26-405a(4)). Therefore, the term of a rent controlled tenancy is two years, commencing on the January 1 of the last biennial review set by the statute prior to notice of repudiation.

E. Other Arguments

New York argues that, even if RTC has the power to repudiate these tenancies, RTC has violated its statutory mandate in repudiating the nine tenancies at issue on this appeal. First, New York contends that there was no proper basis for RTC's determination that these leases are "burdensome". RTC, as conservator or receiver, may repudiate contracts or leases "the performance of which the conservator or receiver, in the conservator's or receiver's discretion, determines to be burdensome." 12 U.S.C. § 1821(e)(1)(B). New York contends that "burdensomeness" must be evaluated in terms of RTC's statutory mandate to "maximize the net present value return" on asset

disposition. Underlining the word "present," New York argues that "Congress instructed RTC to focus" on the asset's "current value, not its value at some future date," and that the "current value" of the nine condominium apartments is their value under rent control and rent stabilization.

We are unpersuaded. The "current" value of any rented property is of course affected by a leasehold interest; but that happens regardless of whether the leasehold is "statutory." The point is that Congress has expressly conferred a power of repudiation that allows RTC to realize "current" value of property free of such leaseholds. Moreover, Congress instructed RTC to exercise its discretion in determining which contracts or leases are burdensome, pursuant to an overarching mandate to "maximize the net present value return" on assets in its possession. It is uncontroverted that (a) these tenancies are causing RTC to lose close to $19,000 per month and (b) these occupied rent-regulated units are worth millions of dollars less than they are worth vacant or free of rent regulations. It cannot be said therefore that RTC abused its discretion in finding these tenancies burdensome.

Next, New York argues that "if RTC prevails in this case, it will be empowered to proceed to repudiate [other] statutory tenancies" and that this "will have a far-reaching effect" on New York's housing market. This, according to New York, violates RTC's obligation "to consider the adverse impact of its actions on local communities" inasmuch as "thousands of long-term tenants [will be] suddenly evicted from their homes."

New York points to RTC's obligation to minimize the impact of its asset dispositions on "local real estate and financial markets." 12 U.S.C. § 1441a(b)(3)(C)(ii). As to

these nine tenancies—the only ones at issue at this time—even the simultaneous sale of all nine would have no more than a *de minimis* impact on the market. As to all others, we simply lack sufficient information to tell.[4] For example, we do not know how many of these units have below-market rents, how many might be occupied by tenants whose income renders the tenancy ineligible for repudiation under RTC's Statement of Policy, how many tenancies RTC will exercise its statutory discretion to repudiate, which ones out of that number will be purchased by the current tenants, over what time the remaining units would come on the market, whether RTC would spread unit sales over time to advance its own interest in maintaining a firm market, and how RTC might otherwise exercise its discretion (conferred by Congress) to avoid adversely impacting the market. Until RTC exercises its discretion to actually repudiate an appreciable number of additional tenancies, a court is not in a position to consider whether or not RTC's conduct falls within the rather nebulous statutory parameters, or even who (if anyone) would have standing to raise the issue.[5]

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[4] According to RTC, however, it currently holds approximately 274 rent-regulated cooperative or condominium units, which represents approximately .015% of the 1,884,000 residential rental units in New York City. Accepting *arguendo* New York's contention that this number could be closer to 1,000, this would still only amount to .053% of the rental market.

[5] New York expresses concern for the "far reaching effects on the tenants." However, any impact on tenants will be mitigated by RTC's express policy not to exercise its repudiation power with respect to families of low and moderate income. Under the current Statement of Policy (and pursuant to 12 U.S.C. § 1441a(b)(3)(C)(v)), the only rent-regulated tenants who would be exposed to possible repudiation of their tenancies are those with income (according to the figure proffered by New York at oral argument) in excess of $45,000 per year.

Finally, New York urges that any repudiation of these "statutory" tenancies will constitute a taking without just compensation in violation of the Fifth Amendment of the Constitution. This argument fails for at least two reasons. First, New York assumes there is a property interest here warranting compensation if "taken." However, any property interest in a temporary estate, by definition, can extend only to the end of the term of that estate. We have already decided that each tenant has the option of remaining in possession through the end of the tenancy's term: so nothing is being "taken." Second, New York in its brief identifies the thing taken as "[l]easehold interests." But § 1821(e) expressly authorizes the repudiation of leases, and in several places refers to the repudiation of a tenant's "leasehold interest." *See* 12 U.S.C. §§ 1821(e)(5)(A)(ii) and (B). The state's regulatory overlay certainly makes these tenancies more advantageous, but that simply reinforces RTC's finding that they are burdensome.

F. Conflict Preemption

Having held that § 1821(e) expressly authorizes RTC to repudiate the tenancies at issue, we have no occasion to reach or address "conflict" preemption, a provocative issue thoroughly considered by the district court. 801 F. Supp. at 1162-64. We note, however, that the Resolution Trust Corporation Completion Act, Pub.L. No. 103-204, 107 Stat. 2369 (1993), signed into law three days before the oral argument of this appeal, contains the following provision under the heading "RTC Management Reforms" (and the subheading "contracting procedures"): "[n]othing in this Act, or any other provision of law, shall supersede the [RTC's] primary duty of minimizing costs to the taxpayer and maximizing the total return to the Government." 12 U.S.C. § 1441a(w)(19)(B). Inasmuch as the

affirmation or disaffirmation of a contract is arguably a "contracting procedure," this could be read to accomplish the preemption of state rent regulations, to the extent they interfere with RTC's mandate. We are not required to reach this issue, however.

G. Ribner's Claim to Tenancy

Lloyd Ribner alleges that he holds his tenancy by succession from his mother, Muriel Ribner. For this succession to be valid under New York's rent regulations, he must have resided in his mother's apartment at least for two years immediately prior to her death. 9 NYCRR § 2204.6(d)(1). In support of its motion for summary judgment, RTC presented evidence that Ribner had moved into the apartment only several weeks before his mother's death, and that within several days of her demise he had once again vacated the premises. Ribner provided rebuttal evidence in the form of an affidavit stating that he "resided with her contemporaneously for several years prior to her death . . . ." On this basis, the District Court found there to be a disputed material fact in issue, and denied both parties' motions for summary judgment.

When a moving party has supported his motion with an affidavit, Rule 56(e), Fed.R.Civ.P. requires that "the adverse party's response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue for trial." We cannot say that Ribner failed to satisfy this requirement. That depends on whether, given the artful phrasing of his affidavit, his having "resided with [his mother] contemporaneously" means (as it is calculated to suggest) that he resided with her *continuously* for the period of "several years"; that "several" means *two* or more; and that "prior" means *immediately* prior. Nothing less or different would

satisfy the minimum statutory requirement. *See Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986) (to successfully oppose motion for summary judgment, non-moving party must demonstrate more than "some metaphysical doubt as to the material facts, . . . [it] must come forward with 'specific facts showing that there is a *genuine issue for trial.*' ") (quoting Fed. R. Civ. P. 56(e)). Nothwithstanding these possible ambiguities, we conclude that the district court correctly denied both parties' motions for summary judgment on this issue.

The district court also dismissed the complaint against Ribner, because it could find "no indication that [thirty days' notice of intent to regain possession, required by New York rent control law] was ever served upon Ribner." 801 F. Supp at 1164. This conclusion is wholly inconsistent with Ribner's admission (through his incorporation by reference of portions of the affidavit filed by another tenant) that he received a letter on August 17, 1990 indicating RTC's intent to repudiate the tenancy. That letter was received a full six months prior to the filing of RTC's complaint, and thus fully satisfies any thirty-day notification requirement. We therefore vacate the District Court's dismissal of RTC's complaint.

CONCLUSION

Title 12 U.S.C. § 1821(e) expressly authorizes RTC to "disaffirm or repudiate" tenancies subject to New York's rent stabilization and rent control laws—these tenancies being based in contract or lease. We therefore reverse the District Court's order, and direct it to enter summary judgment for RTC on the issue of RTC's power to repudiate these tenancies. As to defendant-appellee Lloyd

Ribner, we affirm the district court's refusal to grant summary judgment, and vacate the district court's order dismissing the complaint. We also remand for further proceedings not inconsistent with this opinion.

APPENDIX C

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

91 CIVIL 1361 (RLC)

Filed August 21, 1992

RESOLUTION TRUST CORPORATION, as receiver of Nassau Savings and Loan Association, F.A.,

Plaintiff,

—against—

SELMA DIAMOND, IRA KAUFMAN, JEROME LEDERER, PEGGY LEHMAN, SUSAN SOLOMON PATTULLO, LLOYD RIBNER, as executor of the estate of Muriel Ribner, deceased, HORACE SOLOMON, LILLIAN SOLOMON, DENISE TUCKER, ANGELO APONTE, Commissioner of the Division of Housing and Community Renewal of the State of New York, and ROBERT ABRAMS, Attorney General of the State of New York,

Defendants.

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91 CIVIL 1683 (RLC)

ROBERT ABRAMS, Attorney General of the State of New York, and NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Plaintiffs,

—against—

RESOLUTION TRUST CORPORATION, NASSAU SAVINGS AND LOAN ASSOCIATION, F.A., JEROME MARON, and ANTHONY T.S. CONRAD,

Defendants.

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OPINION

CARTER, *District Judge*

At issue in these consolidated actions is whether the Resolution Trust Corporation ("RTC") is empowered by statute to evict tenants in RTC-controlled apartments in violation of state rent control, rent stabilization, and securities laws. The RTC contends that its enabling statute contains such authorization, and that contrary state laws are preempted under the Supremacy Clause of the United States Constitution. The Attorney General of the State of New York and the New York State Division of Housing and Community Renewal ("DHCR") (collectively the "State") argue that the RTC has no such power, and that state laws regulating rent and evictions are not preempted and must be obeyed by the RTC. Both the RTC and the State have moved separately for summary judgment.

The first of the consolidated cases is a declaratory judgment action, No. 91 Civ. 1361 (RLC), brought by the RTC as receiver of Nassau Savings and Loan Association, F.A. ("Nassau Savings"), against Angelo Aponte, the Commissioner of DHCR; Robert Abrams, the Attorney General of the State of New York; and the individual lessees of nine condominium units located at 444 East 57th Street, New York, New York (the "East 57th Street units") that the RTC acquired as a result of the failure of the Nassau Federal Savings and Loan Association ("Nassau Federal"). The RTC

has sought to evict rent-regulated tenants in the East 57th Street units and has adopted a policy statement which sets out its intention to take similar action against rent-regulated tenants in all other cooperative and condominium units under its control.[1]

In this action the RTC, which was established by Congress for the purposes of managing and disposing of the assets of failed savings and loan institutions, seeks to establish that it has the right under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), Pub.L. 101-73, 103 Stat. 183; 12 U.S.C. § 1441a(b), to disaffirm and repudiate condominium and cooperative unit leases; that this

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[1] The RTC adopted a "Statement of Policy for the Disposition of Residential Units Which Were Previously Subject to Rent or Securities Regulation" (the "policy statement") in February, 1991. The policy statement declares, in relevant part:

> 1. The policy of the RTC will be to exercise its disaffirmance or repudiation powers with regards [*sic*] to these units when it determines that: 1) the insured depository institution is a party to the lease; 2) the performance of which the conservator or receiver determines, in its discretion, to be burdensome; and 3) . . . the disaffirmance or repudiation of which the conservator or receiver determines, in its discretion, will promote the orderly administration of the institution's affairs. . . .
>
> 2. Where the RTC finds that units are leased by low or moderate income tenants, the RTC will not exercise is disaffirmance or repudiation powers with respect to those units. For this purpose, a low or moderate income tenant is defined as a family or individual whose income does not exceed one hundred and fifteen percent (115%) of the median income in the area involved. . . .
>
> 3. Where the RTC determines to disaffirm or repudiate the leases of such units, the RTC may, in its discretion, offer the units for sale to the existing tenants or negotiate other arrangements, on terms which the RTC finds acceptable, in accordance with its mandate to maximize recoveries on the assets of the institutions in its control. If the existing tenants decline or fail to purchase the units or to enter into any other agreement acceptable to the RTC, the RTC will be free to consummate the disaffirmance or repudiation and to take whatever action it deems appropriate for the disposition of the units.

Complaint, No. 91 Civ. 1361 (RLC), Exhibit D.

authority under FIRREA preempts any state law or regulation to the contrary; and that the RTC may therefore sell the East 57th Street units pursuant only to FIRREA provisions and without restraint of any law or regulation of New York State or New York City.

In the second of the consolidated actions, No. 91 Civ. 1683 (RLC), the State challenges the RTC's authority to disregard New York State's comprehensive statutory scheme regulating the offer and sale of cooperative and condominium apartments and the rights of rental tenants. The State seeks declaratory and injunctive relief enjoining the RTC from taking any action in violation of the state rent and securities laws.

I.

The RTC finds its power to repudiate the leases of tenants of rent-regulated housing in 12 U.S.C. § 1821(e)(1), a part of FIRREA, which reads as follows:

> **(e) Provisions relating to contracts entered into before appointment of conservator or receiver.**
>
> **(1) Authority to repudiate contracts.**
>
> In addition to any other rights a conservator or receiver may have, the conservator or receiver for any insured depository institution may *disaffirm or repudiate any contract or lease*—
>
> (A) to which such institution is a party;
>
> (B) the performance of which the conservator or receiver, in the conservator's or receiver's discretion, determines to be burdensome; and
>
> C) the disaffirmance or repudiation of which the conservator or receiver determines, in the conservator's or receiver's discretion, will promote the orderly administration of the institution's affairs.

12 U.S.C. § 1821(e)(1) (emphasis added). The RTC argues that state rent and securities laws that regulate allowable rents and provide tenants with protection from eviction frustrate the accomplishment of the RTC's mandate under FIRREA to maximize the net present value of the assets of failed thrift institutions. The RTC therefore asserts that it may, pursuant to its discretionary powers under section 1821(e)(1), repudiate and disaffirm the leases of tenants in rent-regulated housing under its control in New York State, and thereby exercise control over the apartments free from the constraints of the state rent and securities laws.

The state responds that FIRREA does not give the RTC the power to disregard the requirements of state rent and securities laws. The State argues that the occupancy rights of tenants in New York's rent-regulated housing do not stem from leases or contracts, but instead from statutory tenancies created by the state rent control and rent stabilization laws. The State contends that section 1821(e)(1) gives the RTC power to repudiate or disaffirm contracts and leases but not statutory tenancies, and that the RTC therefore does not have the power to evict the East 57th Street tenants, or any other tenants of rent-regulated housing under RTC control in New York State.

The RTC replies to the State's argument by asserting that FIRREA has preempted whatever rights tenants in rent-regulated housing may have under New York statutory law, thereby leaving only a lease relationship between the tenants and the RTC as landlord. The RTC would then be free to repudiate the leases under section 1821(e)(1). The issue of whether the state rent and securities laws are preempted by FIRREA is complicated, however, and will require extensive discussion.

Under the Supremacy Clause of the United States Constitution, laws passed by Congress become the law of the land, "any Thing in the Constitution or Laws of any State to the Contrary notwithstanding." U.S. Const., Art IV, Cl. 2. However, "[p]reemption of state law by federal statute is not favored 'in the absence of persuasive reasons—either that the nature of the regulated subject matter permits no other conclusion, or that the Congress has unmistakable so ordained.' "

Chicago & N.W. Transp. Co. v. Kalo Brick & Tile Co., 450 U.S. 311, 317 (1981) (quoting *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142 (1963)). This presumption against preemption applies especially where the state law said to be preempted is within the traditional police powers of the states. *See Ray v. Atlantic Richfield Co.*, 435 U.S. 151, 157 (1978); *Rogers v. Consolidated Rail Corp.*, 948 F.2d 858, 859 (2d Cir. 1991). In such cases, the party arguing for preemption carries a heavy burden of showing that preemption was the "clear and manifest purpose of Congress." *Pacific Gas & Elec. Co. v. State Energy Resources Conservation & Dev. Com.*, 461 U.S. 190, 206 (1983); *see also General Motors Corp. v. Abrams*, 897 F.2d 34, 41-42 (2d Cir. 1990) ("compelling evidence" of an intent to preempt must be shown where the area is traditionally regulated by the states).

The state laws that the RTC claims are preempted by FIRREA deal with rent and real estate securities regulation, which are areas within the traditional police powers of the states. *See Rowe v. Pierce*, 622 F. Supp. 1030, 1033 (D.D.C. 1985). Accordingly, there is a presumption against preemption of the state laws by FIRREA.[2]

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[2] The RTC argues that the presumption against preemption only arises where the *federal* legislation regulates areas traditionally well within the police powers of the states, not where the state laws allegedly preempted do so. The RTC asserts that FIRREA as a federal banking statute designed to solve a crisis among savings and loan institutions, is not a federal statute that involves traditional police powers of the states, and that therefore no presumptions against preemption should apply here.

This argument misses the mark. First, the cases make clear that a presumption against preemption arises not only when federal legislation involves areas historically reserved to the states, also when the state statutes sought to be preempted do as well. *See Rogers, supra*, 948 F. 2d at 859; *Medical Soc. of State of New York v. Cuomo*, 777 F. Supp. 1157, 1160-61 (S.D.N.Y. 1991) (Haight, J.).

Second, the rationale behind having a such a presumption in the first place applies whether the federal or the state laws involve the traditional police powers of the states. The doctrine is designed to ensure that the traditional police powers of the states not be lightly superseded by federal laws. *See California v. ARC America Corp.*, 490 U.S. 93, 101 (1989); *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947). Given this rationale, it matters little whether the federal legislation addresses areas of traditional state concern

Federal statutes can preempt state laws in three ways: expressly, through implication, or where there is a conflict between the state and federal laws. *Schneidewind v. ANR Pipeline Co.*, 485 U.S. 293, 300 (1988); *California Fed. Sav. & Loan Ass'n v. Guerra*, 479 U.S. 272, 280 (1987). Express preemption is found where the federal legislation contains an express statement of a clear and manifest intent to preempt state laws. *Jones v. Rath Packing Co.*, 430 U.S. 519, 525 (1977). Implied preemption occurs where there is a clear indication that Congress intended to occupy the entire regulatory field. *Guerra, supra*, 479 U.S. at 280-81. The third type of federal displacement of state law, "conflict preemption," occurs either where there is a conflict between the federal and state laws which makes compliance with both laws physically impossible, or where there is a conflict in which application of the state law will created an obstacle to the accomplishment of the full objectives of Congress. *California v. ARC America Corp.*, 490 U.S. 93, 100-101 (1989); *Silkwood v. Kerr-McGee Corp.*, 464 U.S. 238, 248 (1984); *Medical Soc. of State of New York v. Cuomo*, 777 F. Supp. 1157, 1161 (S.D.N.Y. 1991) (Haight, J.). The RTC contends that the states rent and securities laws are preempted on the basis of express provisions of FIRREA and because of a conflict between the state laws and FIRREA.

II. *Express Preemption*

The RTC argues first that FIRREA expressly preempts the state rent and securities regulations. The RTC relies on 12 U.S.C. 1821(c)(2)(C), which reads: "When acting as conservator or receiver . . . the [RTC] shall not be subject to the direction or supervision of any . . . State in the exercise of the [RTC]'s rights, powers and privileges." The RTC asserts that the state rent and securities laws subject the RTC to the

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directly, or whether the state laws that the federal legislation is claimed to preempt address such state police powers. In either case, concern for protection; against unintentional federal displacement of state laws justifies a presumption against preemption of state by federal law.

direction of the state in the exercise of the RTC's rights, powers and privileges, and that the state provisions are therefore expressly preempted by section 1821(c)(2)(C). However, the State challenges the RTC's apparent assumption that its "rights, powers and privileges" include the power to repudiate a statutory tenancy. If, as the State argues, the tenants in the East 57th Street units occupy their apartments by virtue of statutory tenancies rather than leases, and if the RTC does not have the power under section 1821(e)(1) to repudiate such statutory tenancies, then the RTC's "rights, powers and privileges" do not include the power to repudiate the tenancies, and there can be no express preemption under section 1821(c)(2)(C).

Accordingly, determination of whether the state rent and securities laws are expressly preempted by FIRREA requires the court to address two separate questions: 1) whether the tenants in this case have occupancy rights by virtue of leases or instead pursuant to statutory tenancies independent of any leases; and, 2) if these rights derive from statutory tenancies, whether the "any contract or lease" language of section 1821(e)(1) empowers the RTC to repudiate statutory tenancies as well as the more traditional landlord-tenant relationship embodied in a lease.

A. *Occupancy Rights of Rent-Regulated or Non-Purchasing Cooperative and Condominium Tenants*

The State claims that the East 57th Street tenants, and others in their situation, are in continued possession of their apartment not by virtue of any leases entered into between themselves and their landlords, but because of statutory tenancies created by at least one of three statutes: New York's rent control law, its rent stabilization law, or a section of its general business law commonly referred to as the "Martin Act."

New York law provides two systems of protection for certain rental properties: rent control and rent stabilization. Both systems regulate allowable rents and protect tenants from eviction except under specified circumstances. Section 26-408 of New York's rent control law provides:

> No tenant, so long as he or she continues to pay the rent to which the landlord is entitled, shall be removed from any housing accommodation which is subject to rent control under this chapter by action to evict or recover possession, by exclusion from possession, or otherwise, nor shall any person attempt such removal or exclusion of possession notwithstanding the fact that the tenant has no lease or that his or her lease, or other rental agreement, has expired or otherwise terminated, notwithstanding any contract lease, or obligation heretofore or hereafter entered into which provides for surrender of possession, or which otherwise provides contrary hereto, . . .

except on certain specified grounds, e.g. that the tenant is violating a substantial obligation of the tenancy, or where the landlord has obtained a certificate of eviction from the supervising government agency. N.Y. City Admin. Code § 26-408a, *reported following* N.Y. Unconsol. Law § 8617 (McKinney 1987). The language of the statute itself makes clear that the tenants it covers enjoy a protection from eviction that is independent of any lease that may exist between landlord and tenant.

New York case law supports this interpretation. As the court noted in *In re Friarton Estates Corp.*, 65 B.R. 586 (Bankr. S.D.N.Y 1986), "[u]nder New York law, the occupancy of a statutory tenant is 'not under any agreement, express or implied, but by virtue of the compulsion exerted on the landlord by the local emergency rent laws which allowed him to remain in possession.' " *Id.* at 592 (quoting *Whitmarsh v. Farnell*, 298 N.Y. 336, 343 (1949)). Similarly, when called upon to determine whether rent-controlled tenants held their apartments by lease or by statutory tenancy, the court in *W.T. Associates v. Huston*, 123 Misc. 2d 24, 26, 472 N.Y.S.2d 562, 564 (Sup. Ct. N.Y. Cty. 1984), held that rent controlled tenants "are statutory tenants . . . [who] do not hold leases . . . ." Thus, the tenants in the East 57th Street units, as well as all other tenants in rent-controlled housing now under the control of the RTC, enjoy occupancy rights under New York

law that are independent of any lease or contractual relationship with their landlords.

New York's rent stabilization laws are structured somewhat differently, but the result is the same. The rent stabilization law requires owners to grant a renewal lease of one or two years to all rent-stabilized tenants. *See* N.Y. City Admin. Code § 26-511, *reported following* N.Y. Unconsol. Law § 8617 (McKinney 1987); N.Y. Comp. Codes R. & Regs. tit. 9, part 2522.5 (1990). However, while rent-stabilized tenants, unlike rent-controlled tenants, do hold leases, they also enjoy statutory rights that are independent of any lease. If a landlord refuses to offer a tenant a renewal lease, the tenant has the right under statutory law to remain in possession and continue paying the previously authorized rent. The leases merely provide a means for periodically increasing the rents landlords are allowed to charge. *See Park Summit Realty Corp. v. Frank*, 107 Misc. 2d 318, 323, 434 N.Y.S.2d 73, 76-77 (App. T. 1st Dep't 1980), *aff'd*, 84 A.D.2d 700, 448 N.Y.S.2d 414 (1st Dep't 1981), *aff'd*, 56 N.Y.2d 1025, 453 N.Y.S.2d 643, 439 N.E.2d 358 (1982) (applying *Whitmarsh v. Farnell*, *supra*, 298 N.Y. at 343, reasoning to rent stabilization as well as rent control context); Affidavit of Angelo Aponte, Commissioner of DHCR, Jan. 9, 1992, ¶¶ 12-16. Accordingly, even if RTC repudiated the leases of rent-stabilized tenants in the condominium or cooperative units it controls, those tenants would still enjoy statutory rights to remain in possession of their apartments indefinitely and without a rent increase. Aponte Affidavit, ¶ 14.

The third law that the State contends gives a statutory tenancy to the tenants at the East 57th Street units, as well as to other non-purchasing tenants in cooperative and condominium units controlled by the RTC, is the Martin Act, N.Y. Gen. Bus. Law, §§ 352 *et seq.* (McKinney 1984). The Martin Act governs the offer and sale of securities, commodities, cooperative apartments and condominiums, and regulates the conversion of residential apartment units to cooperative or condominium ownership. The 45-unit building at 444 East 57th Street was converted to condominium ownership under sections 352-e and 352-eeee of the Martin Act between 1981 and 1983. The

conversion was accomplished under a non-eviction plan, which provides certain protections for tenants who decide not to purchase their units at the below-market "insider's" price the conversion guarantees them, but instead to continue to rent the apartments as before.

Section 352-eeee(2)(c)(ii) sets froth permissible reasons for which a non-purchasing tenant may be evicted from the apartment, such as non-payment of rent, illegal use of the apartment, or refusal of access to the owner, but otherwise provides that "[n]o eviction proceedings will be commenced at any time against non-purchasing tenants for failure to purchase or any other reason applicable to expiration of tenancy." *Id.* Accordingly, tenants protected by the Martin Act may only be evicted for one of the reasons enumerated in section 352-eeee(2)(C)(ii), not because their lease has expired or been extinguished. This provision of the Martin Act therefore grants non-purchasing tenants of converted cooperative or condominium apartments occupancy rights separate from any lease agreement they may have with the owners of their apartments. Further, this section specifically provides that "an owner of a unit or of the shares allocated thereto may not commence an action to recover possession of a dwelling unit from a non-purchasing tenant on the grounds that he seeks the dwelling unit for the use and occupancy of himself or his family." *Id.* It is clear, therefore, that the statutory scheme grants indefinite rights of occupancy to the non-purchasing tenants, and that the purchaser of an occupied apartment is on notice of his potentially long-term inability to occupy the apartment himself. These statutory occupancy rights are separate from and in addition to the occupancy rights guaranteed to rent-regulated tenants under the rent control and rent stabilization statutes, thereby providing non-eviction protection even for apartments whose rents are not controlled by the state.

The RTC argues, without contesting any of the above, that tenants nevertheless hold their apartments by leases which it can repudiate under FIRREA. The RTC asserts that the tenants hold their apartments pursuant to either 1) the leases which existed prior to application of rent regulation laws, or

2) the leases which remain under a holdover tenancy after preemption of state law. RTC's brief in opposition to State's motion for summary judgment, at 27. Both these arguments put the proverbial cart before the horse, however. The first ignores the fact that the state rent and securities laws do exist, and that whatever lease or other landlord-tenant relationship existed prior to enactment of those laws is now irrelevant. The second is simply illogical, since it fails to realize that the state laws will be preempted only if FIRREA grants the RTC power to repudiate statutory tenancies. Whatever leases exist after preemption becomes relevant only after preemption has been decided, not before. Furthermore, even if there is a contractual element to the landlord-tenant relationship under the rent regulations and securities laws, the above discussion demonstrates that the tenants' right of occupancy is still independent of that contractual or lease relationship. Therefore, the RTC's power to repudiate whatever lease or contract exists does not affect the occupancy rights, which are secured by statute.

Accordingly, the State is correct that the East 57th Street tenants, as well as other rent-regulated or non-purchasing cooperative or condominium tenants in New York, enjoy occupancy rights that are independent of any lease they may have with their landlords, in this case the RTC.

B. *Does the "any contract or lease" language of FIRREA include statutory tenancies?*

As noted above, section 1821(e)(1) of FIRREA empowers the RTC to repudiate or disaffirm "any contract or lease" that it deems, in its discretion, to be burdensome to the failed institution. Since rent-regulated and non-purchasing cooperative or condominium tenants hold their apartments pursuant to statutory tenancies rather than traditional leases, the issue now presented is whether FIRREA's statutory language, "any contract or lease," is broad enough to include the statutory tenancies.

The RTC initially argues that the court is prevented from interpreting this section of FIRREA by 12 U.S.C. § 1821(j), which provides:

> Except as provided in this section, no court may take any action, except at the request of the Board of Directors [of the RTC] by resolution or order, to restrain or affect the exercise of powers or functions of the [RTC] as a conservator or a receiver.

Just what this section of FIRREA means is disputed by the parties. The RTC seeks to interpret it broadly, as a prohibition on construction or interpretation of FIRREA by federal courts absent an express invitation to do so by the RTC itself. This broad interpretation, however, would be unconstitutional and is therefore untenable. As the court in *Rosa v. Resolution Trust Corp.*, 752 F. Supp. 131 (D.N.J. 1990), observed, "FIRREA did not, and Constitutionally could not, divest an aggrieved plaintiff the right to legal redress when the very subject of the grievance is agency action that is allegedly arbitrary and statutorily impermissible.' " *Id.* at 1236 (quoting *Rechler Partnership v. Resolution Trust Corp.*, No. 90 Civ. 3091 (D.N.J. Sept. 4, 1990), slip op. at 4.9-4.10).[3] While any judicial interpretation of FIRREA would, in its most general sense, "restrain" the RTC, this broad interpretation of the prohibition in section 1821(j) would "vest RTC with unreviewable power to do as it pleases," and thereby constitute a clear violation of the separation of powers. *Rechler Partnership, supra*, at 4.8.

The State advocates a narrower view of section 1821(j), characterizing it as at most a restraint on federal court interference with the substantive decisions of the RTC, not as a prohibition against judicial interpretation and construction of FIRREA. This is the interpretation adopted by the Third

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[3] The RTC notes that *Rosa* was overturned by the Third Circuit. While the district court's preliminary injunction was indeed reversed, *Rosa v. Resolution Trust Corp.*, 938 F.2d 383 (3d Cir. 1991), the appeals court did not reject the district court's reasoning regarding the scope of section 1821(j). Instead, the court stressed that its ruling involved only "application of section 1821(j) to a portion of this injunction, and we express no opinion as to the general scope of the language of that provision." 938 F.2d at 399 n.21. The rest of the appellate opinion in *Rosa* is consistent with the narrower interpretation of this section discussed below.

Circuit in *Rosa v. Resolution Trust Corp.*, 938 F.2d 383, 397-98 (3d Cir. 1991). There, the court first considered what the RTC's "powers or functions" were under FIRREA, and then examined whether the disputed court action would "restrain or affect" those statutory powers and thereby violate section 1821(j). Undertaking the same analysis here, it is clear that the court's efforts to interpret FIRREA in this case will not restrain the exercise of the RTC's powers or functions, and therefore will not run afoul of section 1821(j), if those powers or functions do not include the repudiation of statutory tenancies. Therefore, the dispute about the prohibition of section 1821(j) effectively merges with the determination of whether section 1821(e)(1) expressly preempts the state rent and securities laws, since if the "any contract or lease" language in section 1821(e)(1) does not include statutory tenancies, there will be no preemption and no judicial "interference" as restricted by section 1821(j).

Returning therefore to the construction of "any contract or lease" in section 1821(e)(1), the case of *In re Friarton Estates Corp.*, 65 B.R. 586 (Bankr. S.D.N.Y. 1986) is instructive once again. In that case, the bankruptcy court considered whether a trustee in bankruptcy might, pursuant to section 365 of the Bankruptcy Code, 11 U.S.C. § 365, remove rent-controlled tenants from apartments owned by the bankrupt party. Section 365 empowers the trustee to "assume or reject any executory contract or unexpired lease of the debtor," just as section 1821(e)(1) of FIRREA authorizes the RTC to repudiate or disaffirm "any contract or lease." The *Friarton* court remarked that the trustee's power to remove statutory tenants under the authorization of section 365 was "suspect," since, as noted above, rent-regulated tenants do not hold leases, but rather statutory tenancies. *Friarton*, *supra*, 65 B.R. at 592.[4] The

[4] The court in *Friarton* set forth two alternative grounds for its holding that the debtor could not avoid the strictures of the state rent control laws through bankruptcy. One is its construction of the "executory contract or unexpired lease language in section 365, discussed above. The other ground for its holding was that, under 28 U.S.C. § 959(b), trustees in bankruptcy courts are obligated to obey all "valid laws of the state," requiring compliance with the state rent regulatory laws. The RTC seeks to distinguish *Friarton* by pointing out that there was no preemption of state law in that

same reasoning applies here, where the plain language of the statute, "any contract or lease," does not include rights of occupancy created by state statute and independent of any contract or lease between the landlord and tenant. *Cf. Patterson v. Federal Deposit Ins. Corp.*, 918 F.2d 540, 543 (5th Cir. 1990) (finding that since plaintiff's homestead right was protected by the Texas constitution, it was independent of any agreement between the parties and therefore not included within term "agreement" in 12 U.S.C. § 1823(e)).

Lending further support to the view that "any contract or lease" should not be interpreted broadly to include non-lease statutory rights of occupancy is Congress's list of duties and goals for the RTC. 12 U.S.C. § 1441a(b)(3)(C) instructs the RTC to conduct its operations in a manner which:

> (1) maximizes the net present value return from the sale or other disposition of institutions . . . or assets of such institutions;
>
> (ii) minimizes the impact of such transactions on local real estate and financial markets;
>
> (iii) makes efficient use of funds obtained from the Funding Corporation or from the Treasury;
>
> (iv) minimizes the amount of any loses realized in the resolution of cases;
>
> (v) maximizes the preservation of the availability and affordability of residential real property for low- and moderate-income individuals.

The court may look to all of these instructions for guidance in interpreting the other provisions of FIRREA that set forth the powers Congress granted the RTC. *See King v. St. Vincent's Hosp.*, ___ U.S. ___, ___, 122 S. Ct. 570, 574 (1991) ("a statute is to be read as a whole, since the meaning of statutory language, plain or not, depends on context.") (citations omit-

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case because of section 959(b). That argument, while true, does not diminish the fact that the *Friarton* court's construction of the "executory contract or unexpired lease" language is still relevant to the construction issue presented here.

ted). Three of the instructions are relevant to the RTC's powers under section 1821(e)(1). Subdivision (i), which instructs the RTC to maximize the net present value return of the assets of failed thrift institutions under its control, clearly weighs in favor of an expansive interpretation of the RTC's repudiation powers under section 1821(e)(1). Such expansive powers would enable the RTC to increase the value of its apartments under rent and securities law restrictions. However, Congress's admonition to the RTC in subdivision (ii) to minimize the impact of the RTC's actions on the real estate market weighs in favor of a narrow construction of section 1821(e)(1). Broadening the powers of the RTC under section 1821(e)(1) by allowing it to repudiate tenants' non-lease rights of occupancy would negatively affect the real estate market in New York, and thus run counter to 12 U.S.C. § 1441a(b)(3)(C)(ii).[5] Further, subdivision (v), which requires the RTC to maximize the preservation of affordable housing, also weighs against the scope of the RTC's powers under section 1821(e)(1), since some of the tenants potentially affected by the RTC's asserted power to repudiate leases in this situation are undoubtedly low- and moderate-income tenants. This is true despite the fact that there is no indication that the tenants of the nine East 57th Street units are low- or moderate-income individuals, and that New York's rent protections are not linked to income.[6]

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[5] The effect of the real estate market in New York can be appreciated by the following figures: As of February, 1991, the RTC was in control of approximately 1,000 rent-regulated condominium or cooperative apartments in New York State. It expected about 1,000 more such apartments to come into its control over the next year. Affidavit of Frederick K. Mehlman, Jan. 8, 1992, Exhibits AA and BB. Interpreting section 1821(e)(1) to include the power to repudiate non-lease statutory occupancy rights would remove all of these apartments from rent and securities laws restrictions, and would certainly have a large impact on the real estate market in New York.

[6] While the RTC's policy statement on repudiation does exempt low- and moderate-income tenants from eviction, this is irrelevant to the scope of the RTC's *power* under section 1821(e)(1) to repudiate statutory tenancies. Since section 1821(e)(1) says nothing about income levels, if the section is interpreted to encompass the power to repudiate statutory tendencies, the RTC would not be required to adopt the income exemptions that it has in fact adopted in this case.

Accordingly, two of the three relevant goals behind the RTC's powers counsel a restricted rather than expansive interpretation of the RTC's powers. Therefore, the court declines to expand the reach of section 1821(e)(1) beyond traditional leases and contracts, especially in light of the presumption against preemption that operates in this case. *See Rowe v. Pierce*, 622 F. Supp. 1030, 1033 (D.D.C. 1985).

Having determined that the RTC's repudiation powers under 1821(e)(1) do not extend to statutory tenancies created under state law, and that rent-regulated or non-purchasing tenants of cooperative or condominium apartments hold statutory tenancies instead of leases, it is clear that the RTC's rights, powers, and privileges do not include the power to evict rent-regulated or non-purchasing tenants of cooperative or condominium apartments. Since the state's rent control, rent stabilization, and real estate securities laws therefore do not subject the RTC to state supervision or direction in the exercise of its rights, powers and privileges, those laws are not expressly preempted by FIRREA. 12 U.S.C. § 1821(c)(2)(C).

The RTC's arguments on express preemption misunderstand the issues before the court. In all of the cases cited by the RTC, there was clear power in the federal statute to do whatever the government agency sought to do. Here, no such power exists. Accordingly, those cases are inapposite. *See, e.g. Resolution Trust Corp. v. Elman*, 949 F.2d 624 (2d Cir. 1991) (RTC's clear power under section 1821(d)(5)(D) to disallow any claim by a creditor or claim of security or priority preempts state retaining lien law); *Federal Deposit Ins. Corp. v Shain, Shaffer & Rafanello*, 944 F.2d 129 (3d Cir. 1991) (same).

III. *Conflict Preemption*

The court must next consider whether FIRREA has preempted the state rent and securities laws because of a conflict between state and federal law. A conflict exists when application of the state laws will create "an obstacle to the accomplishment and execution of the full purposes and objectives of

Congress." *International Paper Co. v. Cuellette*, 479 U.S. 481, 492 (1987) (citations omitted); *see also ARC America Corp.*, *supra*, 490 U.S. at 100-101; *Silkwood*, *supra*, 464 U.S. at 248. Preemption will depend, therefore, on what Congress's objectives were in enacting FIRREA, and on whether the state laws present an obstacle to their accomplishment.

The RTC argues that its congressional mandate under FIRREA to "manage and resolve" failed thrift institutions effectively preempts all state laws that conflict in any way with its efforts to resolve the failed institutions, and that since the state rent and securities laws involved here conflict with those efforts, they are perforce preempted. These contentions do not withstand analysis, however.

First, the RTC claims that there is a direct conflict in this case between state laws that prevent repudiation of residential "leases" and FIRREA's provision authorizing such repudiation. As the prior discussion demonstrates, however, no such direct conflict exists, since FIRREA does not provide the power the RTC seeks to exercise in this case. FIRREA does not authorize the RTC to repudiate statutory tenancies, and since the tenants in this case enjoy occupancy rights by virtue of those statutory tenancies, the RTC has no power to evict the tenants. Thus, the situation here is not one where a federal statute allows certain agency action while state laws prohibit it, as the RTC claims.

Second, the RTC complains that the state laws effectively thwart its efforts to comply with Congress' mandate to "maximize the net present value return from the sale or other disposition of institutions . . . or the assests of such institutions." 12 U.S.C. § 1441a(b)(3)(C). Therefore, the RTC argues, the state rent and securities laws should be preempted in order to allow the RTC to accomplish its mandate. The congressional mandate in section 1441a(b)(3)(C), however, is an instruction to the RTC on how to exercise the powers granted to it under other sections of FIRREA; it is not a grant of power in itself. The fact that the RTC would be freer to pursue one of its statutory goals if the state law restrictions did not exist does not by itself require preemption, since no con-

flict exists between federal statutory power and state statutory restrictions.

Further, since Congress did not give the RTC the power that it seeks to exercise here, i.e. to repudiate statutory tenancies, such repudiation cannot be part of the objectives of Congress that the court must consider under the conflict preemption analysis. While the RTC's inability to evict rent-regulated tenants may indeed hinder its resolution efforts, such hindrance derives not from restrictions state laws place on the powers of the RTC, but rather from the fact that Congress did not give the RTC the power to repudiate statutory tenancies in the first place. Therefore, the RTC's protestations that state rent and securities laws thwart its efforts to dispose of the assets of failed savings and loans are misdirected. The RTC should be complaining to Congress, not to the State of New York, since it is Congress that has impaired the RTC's ability to repudiate statutory tenancies, not New York State. Absent the statutory power it seeks, there is no conflict between federal and state laws in this area, and consequently no basis for preemption of the state rent and securities laws.

The cases cited by the RTC in its conflict preemption brief all deal with direct conflict between specific powers granted in federal statutes and contrary state law restrictions, and are therefore inapposite to the question presented here. *See, e.g., Colorado ex. rel. Colorado State Banking Bd. v. Resolution Trust Corp.*, 926 F.2d 931, 936 (10th Cir. 1991) (conflict between 12 U.S.C. § 1823(k), which allows emergency acquisitions of bank branches notwithstanding any provision of state law, and state laws prohibiting branch acquisition through mergers); *Federal Deposit Ins. Corp. v. Bank of Boulder,* 911 F.2d 1466 (10th Cir. 1990) (conflict between state law prohibition of assignment of letters of credit and 12 U.S.C. § 1823(c)(2)(A), which contains clear authorization for FDIC to purchase assets and liabilities of insured savings and loans); *NCNB Texas Nat'l Bank v. Cowden*, 895 F.2d 1488, 1501 (5th Cir. 1990) (conflict between federal statute allowing FDIC to transfer fiduciary appointments of an insolvent bank to federally established bridge banks and state

statutes forbidding such transfers); *Valley Ranch Dev. Co. v. Sunbelt Sav. FSB*, 714 F. Supp. 817 (N.D. Tex. 1989) (conflict between Texas fraudulent transfer statute and FSLIC's power under federal statute to transfer assets in its discretion).

While Congress certainly intended FIRREA to give the RTC broad powers,[7] the fact remains that it did not give the RTC the power to repudiate statutory tenancies. The RTC cannot enlarge its powers under FIRREA by arguing that Congress' objectives for it were broader than the powers granted by statute; conflict preemption doctrine can be used to give the RTC powers that Congress did not see fit to confer on the corporation. Conflicts only exist where there is power under federal statute that is prohibited under state law. Since the power prohibited by state law in this case was never granted to the RTC in the first place, no preemption of state law is possible here.

IV. *Lloyd Ribner's Rights of Succession*

The RTC also moves for declaratory judgment that it is entitled to evict one of the individual tenants, Lloyd Ribner, Jr., from apartment 14E at 444 East 57th Street. Ribner seeks to succeed to the occupancy rights of his recently deceased mother. The RTC contends that, even if it is subject to the state rent control and securities laws, Ribner has no right to occupy this apartment. Under the rent control law, a person is entitled to succeed to the right of possession of a rent-controlled apartment where

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[7] In creating the RTC, Congress intended to "enhance certain powers of the FDIC and to eliminate impediments to the efficient resolution of failed financial institutions." *Federal Deposit Ins. Corp. v. Shain, Schaffer & Rafanello*, 944 F.2d 129, 131 (3d Cir. 1991); *see also Smallwood v. Office of Thrift Supervision*, 925 F.2d 894 (6th Cir. 1991). FIRREA evidences congressional intent to give broad powers to the RTC to resolve the crisis in the savings and loan industry, including powers that the savings and loans did not enjoy prior to being taken over by the RTC. *See, e.g.*, 12 U.S.C. § 1825(b) (no involuntary liens against the property of the receiver; 12 U.S.C. § 1821(d)(12) (mandatory 90-day stay of pending litigation); 12 U.S.C. §§ 1829 and 1822 (no bonds required of the FDIC).

> [the] family member has resided with the tenant in the housing accommodation as a primary residence for a period of no less than two years, or where such person is a "senior citizen" or "disabled person" . . . for a period of no less than one year immediately prior to the permanent vacating of the housing accommodation by the tenant . . . .

N.Y. Comp. Codes R. & Regs. tit. 9, part 2204.6(d)(1) (1990). Ribner alleges that he lived with his mother in the apartment for the requisite period of time. *See* Affidavit of Lloyd Ribner, Jr., Jan. 24, 1992, ¶ 2; Reply Affidavit of Lloyd Ribner, Jr., Jan. 31, 1992, ¶ 1. The RTC presents evidence that he did not occupy the apartment for the required time period, and that he is therefore not entitled to succeed to his mother's tenancy. Affidavit of David A. Yadgaroff, Jan. 30, 1992, ¶¶ 2-4. Given this dispute as to the facts concerning Ribner's occupancy of the apartment, summary judgment cannot be granted to either side on this issue. Rule 56, F.R.Civ.P.[8]

Nevertheless, Ribner points out that the RTC is required by the rent control laws to give him thirty days' notice before bringing any proceeding to regain possession of the apartment. N.Y. City Admin. Code, 26-403(e)(2)(i)(10) *reported following* N.Y. Unconsol. Law § 8617 (McKinney 1987); *Louis v. Barthelme*, ____ A.D.2d____, 579 N.Y.S.2d 656 (1st Dep't 1992). The record contains no indication that such a notice was ever served upon Ribner. Accordingly, the RTC's complaint must be dismissed as against Ribner.

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[8] Ribner's counsel cites New York procedural law throughout his brief in support of summary judgment. Counsel is reminded that in federal court, even where state law provides the substantive rule of decision, the Federal Rules of Civil Procedure, as explicated in the decisions of federal courts, govern procedural matters such as the standard for summary judgment. *See* Rule 56, F.R.Civ.P.; *Hanna v. Plumer*, 380 U.S. 460 (1965).

V. *Conclusion*

In sum, the State's motion for summary judgment is granted and the RTC's motion for summary judgment is denied. FIRREA has not preempted New York's rent control law, its rent stabilization law, or the sections of its general business law dealing with the offer and sale of securities, and the RTC must abide by their provisions. Further, the motion of Lloyd Ribner, Jr., to dismiss the complaint in No. 91 Civ 1361 as against him is granted.

IT IS SO ORDERED.

Dated: New York, New York
August 21, 1992

ROBERT L. CARTER
Robert L. Carter
U.S.D.J.

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

91 CIVIL 1361 (RLC)

Filed November 10, 1992

RESOLUTION TRUST CORPORATION, as receiver of Nassau Savings and Loan Association, F.A.,

Plaintiff,

—against—

SELMA DIAMOND, IRA KAUFMAN, JEROME LEDERER, PEGGY LEHMAN, SUSAN SOLOMON PATTULLO, LLOYD RIBNER, as executor of the estate of Muriel Ribner, deceased, HORACE SOLOMON, LILLIAN SOLOMON, DENISE TUCKER, ANGELO APONTE, Commissioner of the Division of Housing and Community Renewal of the State of New York, and ROBERT ABRAMS, Attorney General of the State of New York,

Defendants.

---

91 CIVIL 1683 (RLC)

ROBERT ABRAMS, Attorney General of the State of New York, and NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Plaintiffs,

—against—

RESOLUTION TRUST CORPORATION, NASSAU SAVINGS AND LOAN ASSOCIATION, F.A., JEROME MARON, and ANTHONY T.S. CONRAD,

Defendants.

JUDGMENT

Both Resolution Trust Corporation ("RTC") and The Attorney General of the State of New York and the New York State Division of Housing and Community Renewal (collectively the "State"), having moved separately for summary judgment, defendant Lloyd Ribner, Jr., having moved to dismiss the complaint in No. 91 Civ. 1361 as against him, and the said motions having come before the Honorable ROBERT L. CARTER, U.S.D.J., and the Court thereafter on August 21, 1992, having handed down its opinion (#70287); denying the RTC's motion for summary judgment, and granting the State's motion for summary judgment, Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") has not preempted New York's rent control law, its rent stabilization law, or the sections of its general business law dealing with the offer and sale of securities, and the RTC must abide by their provisions, and granting the motion of Lloyd Ribner, Jr., to dismiss the complaint in No. 91 Civil 1361 as against him, it is,

ORDERED, ADJUDGED AND DECREED: That the RTC's motion for summary judgment be and it is hereby denied, and it is further,

ORDERED, that the State's motion for summary judgment be and it is hereby granted, and it is further,

ORDERED, that the motion of Lloyd Ribner, Jr., to dismiss the complaint in 91 Civil 1361 as against him be and it is hereby granted, and it is further,

ORDERED, that the complaint be and it is hereby dismissed as against Lloyd Ribner, Jr., in No. 91 Civil 1361, and it is further,

ORDERED, that FIRREA has not preemtped New York's rent control law, its rent stabilization law, or the sections of its general business law dealing with the offer and sale of securities, and the RTC must abide by their provisions.

Dated: New York, New York
November 10, 1992

ROBERT L. CARTER
U.S.D.J.

APPENDIX E

SUPREME COURT OF THE UNITED STATES

Nos. 93-1748, 93-1757

LILLIAN SOLOMON, *et al.*,

Petitioners

—v.—

RESOLUTION TRUST CORPORATION, AS RECEIVER FOR NASSAU SAVINGS AND LOAN

SUSAN SOLOMON PATTULLO, *et al.*,

Petitioners

—v.—

RESOLUTION TRUST CORPORATION, AS RECEIVER FOR NASSAU SAVINGS AND LOAN

ORDER ALLOWING CERTIORARI. Filed October 3, 1994.

The petitions herein for writs of certiorari to the United States Court of Appeals for the Second Circuit are granted.

A true copy WILLIAM K. SUTER
Test:

Clerk of the Supreme Court of the United States

By [ILLEGIBLE]
Chief Deputy

SUPREME COURT OF THE UNITED STATES

Nos. 93-1748, 93-1757

LILLIAN SOLOMON, *et al.*,

Petitioners

—v.—

RESOLUTION TRUST CORPORATION,
AS RECEIVER FOR NASSAU SAVINGS AND LOAN

SUSAN SOLOMON PATTULLO, *et al.*,

Petitioners

—v.—

RESOLUTION TRUST CORPORATION, AS RECEIVER FOR
NASSAU SAVINGS AND LOAN

ON WRITS OF CERTIORARI to the Unites States Court of Appeals for the Eighth Circuit.

THESE CAUSES having been submitted on the petitions for writs of certiorari and responses thereto,

ON CONSIDERATION WHEREOF, it is ordered and adjudged by this Court that the judgment of the above court in these causes is vacated with costs and the cases are remanded to the United States Court of Appeals for the Eighth Circuit for further consideration in light of *O'Melveny & Myers* v. *Federal Deposit Insurance Corporation*, 512 U.S. ____ (1994).

IT IS FURTHER ORDERED that the petitioners, Lillian Solomon, et al. and Susan Solomon Pattullo, et al. recover from

Resolution Trust Corporation, as Receiver for Nassau Savings and Loan Association, F.A. Six Hundred Dollars ($600.00) for their costs herein expended.

October 3, 1994

Clerk's costs: $600.00

A true copy WILLIAM K. SUTER
Test:

Clerk of the Supreme Court of the United States

By [ILLEGIBLE]
Chief Deputy

APPENDIX F

SELECTED NEW YORK STATE STATUTORY PROVISIONS

Emergency Housing Rent Control law, NY. Unconsol. L. (McKinney 1987)

§ 8585. Evictions

1. So long as the tenant continues to pay the rent to which the landlord is entitled, no tenant shall be removed from any housing accommodation with respect to which a maximum rent is in effect pursuant to this act by action to evict or to recover possession, by exclusion from possession, or otherwise, nor shall any person attempt such removal or exclusion from possession notwithstanding the fact that the tenant has no lease or that this lease, or other rental agreement has expired or otherwise terminated, notwithstanding any contract, lease agreement or obligation heretofore or hereafter entered into which provides for surrender or possession, or which otherwise provides contrary hereto . . . .

New York State Rent and Eviction Regulations, 9 N.Y. Comp. Codes R. & Regs., codified after N.Y. Unconsol. L. § 8597 (McKinney 1987)

§ 2100.12. Withdrawal from rental market

Nothing in this Subchapter shall be construed to require any person to offer any housing accommodations for rent, but housing accommodations already on the rental market may be withdrawn only after an order is issued by the Administrator under section 2104.9, if such withdrawal requires that a tenant be evicted from such accommodations.

§ 2104.1. Restrictions on removal of tenant, including hotel tenants

(a) So long as the tenant continues to pay the rent to which the landlord is entitled, no tenant shall be removed from any housing accommodations by action to evict or to recover possession, by exclusion from possession, or otherwise, nor shall any person attempt such removal or exclusion from possession, notwithstanding that such tenant has no lease or that his lease, or other rental agreement has expired or otherwise terminated, notwithstanding any contract, lease agreement or obligation heretofore or hereafter entered into which provides for surrender of possession, or which otherwise provides contrary hereto . . . .

§ 2104.9. Withdrawal of occupied housing accommodations from rental market

A certificate shall be issued where the landlord establishes that he seeks in good faith to permanently withdraw occupied housing accommodations from both the housing and nonhousing rental markets without any intent to rent or sell or any part of the land or structure and (a) that he requires the entire structure containing the housing accommodations or the land for his own immediate use in connection with a business which the landlord owns and operates in the immediate vicinity of the property in question, or

* * * *

(d) that the continued operation of the housing accommodations would impose other undue hardship upon him. No certificate shall be issued under this section where the granting of the certificate is inconsistent with the purposes of the Act.

The Martin Act, N.Y. Gen. Bus. L. § 352-eee and -eeee (McKinney 1984)

2(c)(ii) No eviction proceedings will be commenced at any time against non-purchasing tenants for failure to purchase or any other reason applicable to expiration of tenancy; provided that such proceedings may be commenced for non-payment of rent, illegal use or occupancy of the premises, refusal of reasonable access to the owner or a similar breach by the non-purchasing tenant of his obligations to the owner of the dwelling unit or the share allocated thereto; and provided further that an owner of a unit or of the shares allocated thereto may not commence an action to recover possession of a dwelling unit from a non-purchasing tenant on the grounds that he seeks the dwelling unit for the use and occupancy of himself or his family.

(iii) Non-purchasing tenants who reside in dwelling units subject to government regulation as to rentals and continued occupancy prior to the conversion of the building or group of buildings or development to cooperative or condominium ownership shall continue to be subject thereto.

(iv) The rentals of non-purchasing tenants who reside in dwelling units not subject to government regulation as to rentals and continued occupancy and non-purchasing tenants who reside in dwelling units with respect to which government regulation as to rentals and continued occupancy is eliminated or becomes inapplicable after the plan has been accepted for filing by the attorney general shall not be subject to unconscionable increases beyond ordinary rentals for comparable apartments during the period of their occupancy. In determining comparability, consideration shall be given to such factors as building services, level of maintenance and operating expenses.

SELECTED NEW YORK CITY STATUTORY AND REGULATORY PROVISIONS

New York City Rent Control, N.Y.C. Admin. Code, codified after N.Y. Unconsol. L. § 8617 (McKinney 1987)

§ 26-408. Evictions

a. No tenant, so long as he or she continues to pay the rent to which the landlord is entitled, shall be removed from any housing accommodation which is subject to rent control under this chapter[1] by action to evict or recover possession, by exclusion from possession, or otherwise, nor shall any person attempt such removal or exclusion from possession notwithstanding the fact that the tenant has no lease or that his or her lease, or other rental agreement, has expired or otherwise terminated, notwithstanding any contract, lease agreement, or obligation heretofore or hereafter entered into which provides for surrender of possession, or which otherwise provides contrary hereto . . . .

* * * *

j. (1) Nothing in this chapter shall be construed to require any person to offer any housing accommodations for rent, but housing accommodations already on the rental market may be withdrawn only after prior written approval of the city rent agency, if such withdrawal requires that a tenant be evicted from such accommodations.

New York City Rent and Eviction Regulations, 9 N.Y. Comp. Codes R. & Regs., codified after N.Y. Unconsol. L. § 8597 (McKinney 1987)

§ 2200.12. Withdrawal from rental market

Nothing in these regulations shall be construed to require any person to offer any housing accommodations

for rent, but housing accommodations already on the market may be withdrawn only after an order is issued by the administrator under section 2204.9 of this Title, if such withdrawal requires that a tenant by evicted from such accommodations.

§ 2204.1. Restrictions on removal of tenants, including hotel tenants

(a) No tenant, so long as he continues to pay the rent to which the landlord is entitled, shall be removed from any housing accommodation which by action to evict or to recover possession, by exclusion from possession or otherwise, nor shall any person attempt such removal or exclusion from possession, notwithstanding that the tenant has no lease or that his lease, or other rental agreement, has expired or otherwise terminated, and notwithstanding any contract, lease agreement, or obligation heretofore or hereafter entered into which provides for surrender of possession, or which otherwise provides contrary hereto . . . .

§ 2104.9. Withdrawal of occupied housing accommodations from rental market

(a) A certificate shall be issued where the landlord establishes that he seeks in good faith permanently to withdraw occupied housing accommodations from both the housing and nonhousing rental markets, without any intent to rent or sell all or any part of the land or structure and:

> (1) that he requires the entire structure containing the housing accommodations or the land for his own immediate use in connection with a business which, at the time of the filing of the application for a certificate of eviction, he owns and operates in the immediate vicinity of the property in question;

* * * *

or

(4) that the continued operation of the housing accommodations would impose other undue hardship upon the landlord.

New York City Rent Stabilization, N.Y.C. Admin. Code, codified after N.Y. Unconsol. L. § 8617 (McKinney 1987)

§ 26-511. Real estate industry stabilization association

c. A code shall not be adopted hereunder unless it appears to the division of housing and community renewal that such code

* * * *

(4) includes provisions requiring owners to grant a one or two year vacancy or renewal lease at the option of the tenant . . .

* * * *

(9) provides that an owner shall not refuse to renew a lease . . . .

New York City Rent Stabilization Code, 9 N.Y. Comp. Codes R. & Regs., codified after N.Y. Unconsol. L. § 8634 (McKinney 1987)

§ 2522.5. Lease agreements

(b) Renewal lease.

(1) For housing accommodations other than hotels, upon such notice as is required by section 2423.5 of this Title (Notice for Renewal of Lease and Renewal Procedure), the tenant shall have the right of selection at his or her option a renewal of his or her lease for a one or two years term . . . .

The owner shall furnish to the tenant signing a renewal lease form pursuant to section 2523.5 of

this Title, a copy of the fully executed renewal lease form, bearing the signatures of the owner and tenant, and the beginning and ending dates of the lease term, within 30 days from the owner's receipt of the renewal lease form signed by the tenant. Such renewal lease form shall conform to the intent of section 5-702 of the General Obligations Law.

(2) Upon complaint by the tenant that he or she was not served with a copy of the fully executed . . . renewal lease . . . the DHCR shall order the owner to furnish the copy of the vacancy . . . renewal lease form. In addition to any other penalties provided under this Code, non-compliance by the owner within 20 days of such order shall result in the denial of any rent guideline increases for . . . renewal leases until the fully executed copy of the . . . renewal lease form is furnished by the owner of the tenant.

§ 2524.1. Restrictions on removal of tenant

(a) As long as the tenant continues to pay the rent to which the owner is entitled, no tenant shall be denied a renewal lease or be removed from any housing accommodation by action to evict or to recover possession, by exclusion from possession, or otherwise, nor shall any person attempt such removal or exclusion from possession . . .

§ 2524.4. Grounds for refusal to renew lease, or in hotels, discontinuing a hotel tenancy, without order of the DHCR

The owner shall not be required to offer a renewal lease to a tenant, or in hotels, to continue a hotel tenancy, and may commence an action or proceeding to recover possession in a court of competent jurisdiction, upon the expiration of the existing lease term, if any,

after serving the tenant with a notice as required pursuant to section 2524.2 of this Part (Termination Notices) only on one or more of the following grounds:

(a) Occupancy by owner or member of owner's immediate family.

(1) An owner who seeks to recover possession of a housing accommodation for such owner's personal use and occupancy as his or her primary residence in the City of New York and/or for the use and occupancy of a member of his or her immediate family as his or her primary residence in the City of New York, except that tenants in a non-eviction conversion plan pursuant to section 352-eeee of the General Business Law may not be evicted on this ground on or after the date the conversion plan is declared effective.

§ 2524.5. Grounds for refusal to renew lease or discontinue hotel tenancy and evict which require approval of the DHCR

(a) The owner shall not be required to offer a renewal lease to a tenant . . . upon any one of the following grounds:

(1) Withdrawal from the rental market.

The owner has established to the satisfaction of the DHCR after a hearing, that he or she seeks in good faith to withdraw any or all housing accommodations from both the housing and non-housing rental market without any intent to rent or sell all or any part of the land or structure and:

(i) that he or she requires all or part of the housing accommodations or the land for his or her own use in connection with a business which he or she owns and operates.

EDITOR'S NOTE

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Nos. 94-1528 and 94-1564

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In the Supreme Court of the United States

OCTOBER TERM, 1994

HORACE SOLOMON, ET AL., PETITIONERS

v.

RESOLUTION TRUST CORPORATION, AS RECEIVER FOR NASSAU SAVINGS AND LOAN ASSOCIATION, F.A.

SUSAN SOLOMON PATTULLO, ET AL., PETITIONERS

v.

RESOLUTION TRUST CORPORATION, AS RECEIVER FOR NASSAU SAVINGS AND LOAN ASSOCIATION, F.A.

ON PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

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QUESTION PRESENTED

Whether the Resolution Trust Corporation, in its capacity as receiver of a failed depository institution, has the power under 12 U.S.C. 1821(e) (Supp. V 1993) to repudiate leases that are subject to state and local rent-control regulations, and to terminate occupancy by tenants thereunder.

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In the Supreme Court of the United States

OCTOBER TERM, 1994

No. 94-1528

HORACE SOLOMON, ET AL., PETITIONERS

v.

RESOLUTION TRUST CORPORATION, AS RECEIVER FOR NASSAU SAVINGS AND LOAN ASSOCIATION, F.A.

No. 94-1564

SUSAN SOLOMON PATTULLO, ET AL., PETITIONERS

v.

RESOLUTION TRUST CORPORATION, AS RECEIVER FOR NASSAU SAVINGS AND LOAN ASSOCIATION, F.A.

ON PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals on remand from this Court (Pet. App. 1a-27a)[1] is reported at

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[1] References are to the appendix to the petition in No. 94-1528.

45 F.3d 665. That court's original opinion (Pet. App. 29a-65a) is reported at 18 F.3d 111. The opinion of the district court (Pet. App. 66a-93a) is reported at 801 F. Supp. 1152.

JURISDICTION

The judgment of the court of appeals was entered on January 20, 1995. The petition for a writ of certiorari in No. 94-1528 was filed on March 15, 1995, and the petition in No. 94-1564 was filed on March 22, 1995. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. Congress created the Resolution Trust Corporation (RTC) in part to receive and liquidate the assets of failed savings institutions. See generally 12 U.S.C. 1441a(b) (Supp. V 1993), enacted by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Pub. L. No. 101-73, 103 Stat. 183. Section 1441a(b)(4)(A) grants the RTC the "same powers and rights to carry out its duties with respect to [certain federally insured depository] institutions * * * as the Federal Deposit Insurance Corporation has under sections 1821, 1822, and 1823 of [Title 12]." Section 1821(c)(1) authorizes the RTC to accept appointments and act as the receiver for such an institution.

Section 1821(e) describes the powers of the receiver with respect to leases and other preexisting contracts of the institution. Section 1821(e)(1) provides that the receiver "may * * * repudiate any * * * lease * * * to which such institution is a party," if the receiver "determines" that "the performance of

[the lease] * * * [would] be burdensome," and if the receiver also "determines, in the * * * receiver's discretion, [that repudiation] will promote the orderly administration of the institution's affairs." Section 1821(e)(5) specifies the remedies available to a tenant if the RTC repudiates a lease under Section 1821(e)(1). If the tenant is not in default, the tenant has the option of either treating the lease as terminated by the repudiation, or remaining in possession for the balance of the term of the lease, in which case the tenant must continue to pay the rent due under the terms of the lease. Once the leasehold expires, the tenant may be required to quit the premises.

In February, 1991, the Board of Directors of the RTC adopted and issued a policy statement limiting the circumstances in which it would exercise its powers under Section 1821(e) to remove tenants from properties subject to state and local rent-control and rent-stabilization regulations. C.A. App. A55-A57; see Pet. App. 38a. Under that policy, "[i]t is clearly the intention of the Board of Directors to avoid displacing low and moderate income tenants from such units." C.A. App. A55. Accordingly, if "the RTC finds that units are leased by low or moderate income tenants, the RTC will not exercise its disaffirmance or repudiation powers with respect to those units." *Id.* at A56.[2] With respect to units not

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[2] The statement defined a low- or moderate-income tenant as "a family or individual whose income does not exceed one hundred and fifteen percent (115%) of the median income in the area involved, as determined by the U.S. Secretary of Housing and Urban Development, with adjustments for family size." C.A. App. A56-A57. The relevant percentage has since been raised to 130%. See 59 Fed. Reg. 5450 (1994).

occupied by low- or moderate-income tenants, however, the statement concluded that "[t]he RTC, and ultimately the taxpayers, cannot be put in the position of continuing to underwrite rental of such units at a significant loss to the RTC." *Id.* at A55. Thus, the Board of Directors "determined that disaffirmance or repudiation of leases of these units * * * is required in these circumstances." *Id.* at A56.

2. This case involves the tenants of nine apartments in a luxury apartment building built before World War II and located at 444 E. 57th Street (near the corner of Sutton Place) in New York City. See C.A. App. A449 (¶ 3).[3] Each of the apartments is subject to provisions of state and local law that either control the rent payable under the apartment leases or specify the increases in rent that are permissible in any given year. In or about 1984, the owner of the apartments granted a security interest in the apartments to Nassau Federal Savings and Loan Association to secure a loan of $3.2 million. When the owner defaulted on the loan in 1987, Nassau Federal became the owner of the apartments. Nassau Federal failed in March, 1990, and the RTC was appointed receiver. After determining that it was losing almost $19,000 per month on the nine apartments, based on the difference between the rent collected and the required expenses of ownership (including taxes and common charges assessed by the cooperative board, but not including insurance, maintenance, and repair costs), the RTC as receiver notified the tenants that it was repudiating their tenan-

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[3] An independent 1990 appraisal placed the unregulated market value of the nine apartments at issue here at $7,565,000. See C.A. App. A400 (¶ 4), A450 (¶ 6).

cies under Section 1821(e). See Pet. App. 32a-39a; C.A. App. A449-A450 (¶¶ 4-5).[4]

3. When the tenants and various state officials disputed the authority of the receiver to repudiate the tenancies, the receiver filed this action in the United States District Court for the Southern District of New York, seeking a declaration that it had the power to repudiate the tenancies in question. The district court granted summary judgment for petitioners, concluding that the RTC as receiver does not have the authority to repudiate the tenancies. Pet. App. 66a-93a. The court stated that applicable New York laws create "statutory tenancies" (*id.* at 75a), under which the tenants enjoy "occupancy rights that are independent of any lease they may have with their landlords" (*id.* at 80a). The court reasoned that the power granted in Section 1821(e)(1) does not authorize repudiation of those tenancies, because they rest on a statute, not on a "contract" or "lease" subject to repudiation under Section 1821(e)(1). Pet. App. 80a-87a.

4. The court of appeals reversed. Pet. App. 29a-65a. Based on a detailed consideration of applicable New York law (*id.* at 44a-53a), the court rejected petitioners' claims that those laws "creat[e] a statutory tenancy that is in effect non-contractual, and beyond the reach of RTC's repudiation power" (*id.* at 45a). The court concluded instead that

> New York's statutory tenancies—whether under rent stabilization or rent control—are contract-

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[4] The record does not indicate that any of the tenants are persons of low or moderate income protected by the RTC's policy statement. Pet. App. 39a.

> based leaseholds. That being the case, they fall within the express language of § 1821(e), and are subject to RTC's statutory power to repudiate. By repudiating the contract or lease creating the tenancy, RTC is effectively dissolving the tenancy. Once it has done so, no statutory or regulatory provision—at least none that can pass constitutional muster—can revive that tenancy.

Id. at 52a. The court noted that its conclusion that Section 1821(e) allows the RTC to terminate tenancies that could be extended indefinitely by the tenant under state law was supported by the contrast between the absolute repudiation right granted in Section 1821(e) and the lease termination provision in the Bankruptcy Code, which expressly permits a tenant of a bankrupt landlord to renew or extend the lease whenever the tenant has a right to such a renewal or extension "that is enforceable by such lessee under applicable nonbankruptcy law." Pet. App. 53a-56a (discussing 11 U.S.C. 365(h)(1)).

The court then turned to petitioners' argument that the leasehold in a rent-controlled apartment is perpetual, and thus not subject to repudiation, because of the provisions of Section 1821(e)(5) that allow a tenant to remain in occupancy until the end of the term of its lease. Pet. App. 56a-59a. The court rejected that argument based on its conclusion that the lease term of a rent-controlled apartment ends at the end of the biennial period provided for review of rent under the rent-control laws. *Id.* at 58a-59a.

The court also rejected petitioners' argument that the RTC erred in determining that the tenancies were burdensome. Pet. App. 59a-60a. The court explained:

> It is uncontroverted that (a) these tenancies are causing RTC to lose close to $19,000 per month and (b) these occupied rent-regulated units are worth millions of dollars less than they are worth vacant or free of rent regulations. It cannot be said therefore that RTC abused its discretion in finding these tenancies burdensome.

Id. at 60a.

5. This Court vacated the judgment of the court of appeals and remanded the case for reconsideration in light of *O'Melveny & Myers* v. *FDIC*, 114 S. Ct. 2048 (1994). *Solomon* v. *RTC*, 115 S. Ct. 43 (1994); *Pattullo* v. *RTC*, 115 S. Ct. 44 (1994). On remand, the court of appeals reaffirmed its prior judgment and, with some clarifications and one modification, reinstated its original opinion. Pet. App. 1a-27a.

After analyzing this Court's opinion in *O'Melveny* (Pet. App. 6a-10a), the court of appeals observed (*id.* at 11a) that, while *O'Melveny* involved the propriety of judicial "creation of a federal rule of decision" (*ibid.*, quoting *O'Melveny*, 114 S. Ct. at 2056), this case involves only judicial interpretation of a federal statutory provision, Section 1821(e), which itself "specifically create[s] [a] special federal rule[] of decision" (Pet. App. 11a, quoting *O'Melveny*, 114 S. Ct. at 2054). This case therefore posed no question of "federal common law." Pet. App. 11a; see *id.* at 14a.

The court again rejected (Pet. App. 12a-19a) petitioners' argument that rent-regulated tenancies in New York are purely statutory, rather than contractual, and are therefore not subject to the RTC's statutory power to repudiate "any contract or lease." 12 U.S.C. 1821(e)(1) (Supp. V 1993). Recognizing (Pet. App. 12a) *O'Melveny*'s disapproval of the

judicial creation of new remedies or causes of action to supplement a comprehensive federal statutory scheme, the court pointed out (*id.* at 13a-14a) that in this case it had only "construed the language of a federal statute that by its own terms created a rule of decision" (*id.* at 14a).

The court rejected (Pet. App. 12a) petitioners' contention that, under *O'Melveny*, words or terms not expressly defined in such a federal statute must be construed solely in accordance with state law. Instead, the court looked to "generally applicable, longstanding principles of law" (*id.* at 14a), as well as to the particular characteristics of rent regulation in New York, in construing the meaning and application of the term "lease" in the federal statute. See *id.* at 14a-19a. On that basis, the court reaffirmed its prior determination that the tenancies at issue are fundamentally contractual, albeit heavily regulated by the State, and that the State's regulations "merely involve[] restrictions imposed on existing tenancies." *Id.* at 19a (quoting *Seawall Associates* v. *City of New York*, 544 N.Y.S.2d 542, 548 (N.Y.), cert. denied, 493 U.S. 976 (1989)). Because "the tenancy itself—the interest in the property—was created by [a] lease," the court concluded that Section 1821(e)(1) conferred on the RTC the right to terminate a regulated tenancy and all "the relationships and interests that the [lease] document creates." Pet. App. 19a.

The court also specifically addressed (Pet. App. 19a-23a) petitioners' argument that, even if the RTC could repudiate the lease underlying a regulated tenancy, the tenant's "statutory freedom from eviction" (*id.* at 19a-20a) would survive repudiation, so that the agency would be "bound by the rent regulations to accept the state-regulated rent in exchange

for the tenant's continued occupation of the property" (*id.* at 20a). The court recognized the deference due to a State's exercise of its traditional police powers, but concluded that, in this case, enforcement of the State's non-eviction rules would effectively negate the RTC's federal statutory power to repudiate the underlying tenancies, which it had determined to be "burdensome" (12 U.S.C. 1821(e)(1)(B) (Supp. V 1993)) precisely because of "the regulated rent and the diminished asset value that the rent-regulation causes." Pet. App. 22a-23a. Because that result would "directly interfere[] with the 'accomplishment and execution of the full purposes and objectives of Congress'" (*id.* at 22a (citation omitted)), the court held that Section 1821(e)(1) preempts enforcement of the State's non-eviction rules to the extent that such enforcement would "bar the RTC from taking steps necessary to fully effect a repudiation of the [underlying] tenancy" (Pet. App. 20a).[5]

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[5] The court modified its previous decision with respect to the time allowed for rent-controlled tenants to remain on the premises under Section 1821(e)(5)(A)(ii). Pet. App. 23a-27a. The court's first decision held (*id.* at 56a-59a) that the "term" of the rent-controlled leasehold for those purposes was the biennial period provided under New York's rent-control laws for review of the rental rates. On remand, the court took note of recently enacted New York legislation providing for the deregulation of some rent-controlled apartments. Finding repudiation of the underlying tenancy closely analogous to statutory deregulation, the court modified its prior decision to conform to the new time period provided by state law for vacation of decontrolled premises. *Id.* at 26a-27a.

ARGUMENT

When this case was first before the Court, the Court remanded it for reconsideration in light of the intervening decision in *O'Melveny & Myers* v. *FDIC*, 114 S. Ct. 2048 (1994). After carefully reviewing *O'Melveny* and revisiting its previous analysis of the case, the court of appeals reaffirmed its initial conclusion that 12 U.S.C. 1821(e) (Supp. V 1993) authorizes the RTC to repudiate the rent-regulated tenancies at issue here. That decision, which is the first appellate decision to consider the question presented, is consistent with the governing federal statute and does not conflict with any decision of this Court or of any other court of appeals. This case therefore requires no further review.

1. Petitioners contend (94-1528 Pet. 21-29; 94-1564 Pet. 17-19) that the decision below conflicts with this Court's decision in *O'Melveny*. The court of appeals correctly focused (Pet. App. 11a), however, on the central distinction between this case and *O'Melveny*: *O'Melveny* involved judicial creation of a federal common law rule modifying the elements of a state law tort action brought by the RTC "in the shoes of" an insolvent thrift, whereas this case involves interpretation of a federal statutory provision that specifically authorizes the RTC to step *out* of those shoes in order to exercise an express right of federal receivership. See *O'Melveny*, 114 S. Ct. at 2054. *O'Melveny* explicitly recognized that its reading of FIRREA required application of state law "except where some provision in the extensive framework of FIRREA provides otherwise." *Ibid.* This case involves just such an "explicit federal statutory provision"—indeed, one cited by the *O'Melveny* Court itself as an example of FIRREA provisions that

"specifically create special federal rules of decision." *Ibid.* (citing 12 U.S.C. 1821(e)(1) and (3) (Supp. V 1993)).

Petitioners argue (94-1528 Pet. 25-27; 94-1564 Pet. 17-18) that *O'Melveny* requires that the phrase "contract or lease" in Section 1821(e)(1) be controlled solely by applicable state law. As the court of appeals recognized (Pet. App. 12a-14a), however, nothing in *O'Melveny* disturbed the well-settled proposition that the interpretation of the terms used in a federal statute is ultimately a matter of federal law. See, *e.g.*, *United States* v. *Idaho*, 113 S. Ct. 1893 (1993) (fees characterized by state law as "filing fees" rather than "costs" are nonetheless "costs" for purposes of 43 U.S.C. 666); *District of Columbia* v. *Greater Washington Board of Trade*, 113 S. Ct. 580 (1992) (whether particular state law "relates to" a plan protected by ERISA is a question of federal law, although dependent on the effect of the state law); *Cipollone* v. *Liggett Group, Inc.*, 112 S. Ct. 2608 (1992) (preemption of state rules relating to cigarette advertising is a question of federal law, dependent on the requirements of state regulations and causes of action); *United States* v. *National Bank of Commerce*, 472 U.S. 713, 727 (1985) ("The question whether a state-law right constitutes 'property' or 'rights to property' [under 26 U.S.C. 6331(a)] is a matter of federal law."); *Dickerson* v. *New Banner Institute, Inc.*, 460 U.S. 103, 111-112 (1983) ("Whether one has been 'convicted' within the language of the [federal] gun control statutes is necessarily * * * a question of federal, not state, law, despite the fact that the predicate offense and its punishment are defined by the law of the State."); *RFC* v. *Beaver County*, 328

U.S. 204, 208 (1946) (a State's definition of a term appearing in a federal statute cannot govern "if it conflicts with the scope of that term as used in the federal statute").

It is true that, as the decisions just cited indicate, the interpretation of terms in a federal statute is often properly informed by reference to particular state laws, or to general principles of state or common law. See also, *e.g.*, *BFP* v. *RTC*, 114 S. Ct. 1757, 1764 (1994) ("Federal statutes impinging upon important state interests cannot be construed without regard to the implications of our dual system of government." (internal quotation marks and ellipsis omitted)); see 94-1564 Pet. 20-21. The court of appeals respected that principle here. See, *e.g.*, Pet. App. 12a-19a & n.2; *id.* at 43a-52a ("consult[ing] for guidance the body of New York law concerning the design and operation of the rent regulation programs at issue" (*id.* at 43a) before concluding that rent-regulated tenancies are "ultimately based on a lease or other voluntary contractual arrangement" (*id.* at 44a)). Moreover, the court sought and found evidence of congressional intent that leasehold interests like those at issue should fall within the receiver's statutory repudiation power. See *id.* at 53a-56a. Nothing in the court's methods or result is inconsistent with this Court's decision in *O'Melveny*, or with sound principles of statutory interpretation.

Finally, petitioners contend (94-1528 Pet. 22-24; 94-1564 Pet. 18-19) that the court of appeals erroneously relied, in its preemption analysis (see Pet. App. 21a-22a), on a "more money" argument of the sort rejected in *O'Melveny*, 114 S. Ct. at 2055. *O'Melveny*, however, disapproved only the use of a

general interest in preservation of the deposit insurance fund to justify federal common-law modification of a state-law cause of action. *Ibid.* In this case, by contrast, the court of appeals relied on the specific purpose—enhancing the value of a failed institution's assets—underlying the specifically conferred federal power to terminate "burdensome" leases, in order to determine the proper preemptive scope of the federal power. Pet. App. 21a-22a. As the court of appeals recognized (*id.* at 24a n.4), nothing in *O'Melveny* proscribes that sensible approach.

2. Petitioners argue (94-1528 Pet. 13-16; 94-1564 Pet. 17-18) that the decision below conflicts with decisions of this Court recognizing a distinction between obligations imposed by state law and obligations imposed by contract. That is not correct.

a. *American Airlines, Inc.* v. *Wolens*, 115 S. Ct. 817 (1995), and *Cipollone* v. *Liggett Group, Inc.*, *supra*, concluded that two federal statutes that explicitly preempted state laws did not, at the same time, preempt private contractual obligations.[6] *General Motors Corp.* v. *Romein*, 503 U.S. 181 (1992), held that state employee benefit laws were not automatically incorporated into private employment agreements in such a way that later, retroactive changes in the benefit laws would violate the Contract Clause of the Constitution. Petitioners cite these cases for the general proposition that state laws and private contracts must be distinguished for purposes of analysis.

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[6] Conversely, but to the same effect, the appellate cases applying *Cipollone* cited by petitioners in No. 94-1528 (at 18-19) hold that explicit federal preemption provisions do preempt enforcement of warranties implied under state law (rather than created solely by private agreement).

The court of appeals in this case concluded that the underlying contract between rent-regulated tenants and their landlords remained a "lease," subject to repudiation under Section 1821(e)(1), despite the effects of supervening state laws that limited or modified the lease terms. See, *e.g.*, Pet. App. 11a. That issue has nothing to do with preemption, or with the Contract Clause. On remand, the court did consider separately whether the same state laws that had regulated the repudiated leases could apply, after the repudiation, directly to the RTC as owner of the properties in question. *Id.* at 19a-23a. The court concluded that, under the circumstances of this case, those non-contractual state law restrictions were preempted by federal law to the extent necessary to effectuate the repudiation. *Id.* at 23a. Nothing in that two-step analysis—repudiation of the contract, followed by a limited preemption of related state law—in any way "obliterates" (94-1528 Pet. 13) the distinction between private contract and state law.

b. Similarly, petitioners claim (94-1528 Pet. 16-17; 94-1564 Pet. 16-17) that the court of appeals' decision conflicts with decisions construing the term "agreement" as used in a different provision of FIRREA, 12 U.S.C. 1823(e) (Supp. V 1993). Those decisions held only that obligations created by state law, independent of any private agreement, are binding on a federal receiver despite Section 1823(e)'s prohibition against the enforcement of certain private "agreement[s]" that are not adequately reflected in the records of the insolvent institution. See, *e.g.*, *Bateman* v. *FDIC*, 970 F.2d 924, 927-929 (1st Cir. 1992) (mechanic's lien created without agreement); *Patterson* v. *FDIC*, 918 F.2d 540, 543-545 (5th Cir. 1990) (state constitutional homestead interest). The

court in this case, however, held that the agreement that underlies a landlord-tenant relationship remains a "lease," even if state law later modifies the contractual rights of the parties; and that the specific federal authorization to repudiate such a lease preempts application of state laws designed to regulate the original agreement, to the extent necessary to effectuate the repudiation. The cases on which petitioners rely thus deal with a different issue from that involved here.

c. Petitioners argue (94-1528 Pet. 17-18; 94-1564 Pet. 15) that the decision below conflicts with decisions interpreting the words "contract" and "lease" as used in 11 U.S.C. 365(a). As we stated in our opposition to petitioners' previous petitions (93-1748 & 93-1757 Br. in Opp. 13-14), those cases did not consider whether a trustee or receiver had the power to reject a lease burdened by state regulations, but rather the separate question whether tenancies that continued after rejection of a lease in bankruptcy were exempt from state laws imposing obligations on landlords.

Nothing in the decision in this case permits the RTC to ignore generally applicable regulations affecting the property it owns (such as the housing code provisions at issue in *Saravia* v. *1736 18th St., N.W., Limited Partnership*, 844 F.2d 823 (D.C. Cir. 1988)), and a rent-regulated tenant (as well as the property's neighbors and the general public) will retain the protection of such regulations so long as the tenant remains in possession of the leased premises—either before repudiation, or after repudiation but during the remaining term of the lease (as computed for purposes of Section 1821(e)(5)). The court of appeals held only (Pet. App. 23a) that Section

1821(e) allows repudiation of the underlying regulated lease, and preempts the *anti-eviction* provisions of state law to the extent necessary to effectuate that repudiation after the expiration of the period of continued occupancy permitted under Section 1821 (e)(5).

For the same reason, petitioners are incorrect in asserting (94-1528 Pet. 3, 12) that the decision below has a "breathtaking scope" and would preempt "essential 'services' obligations imposed by state and local housing codes" and implied warranties of habitability. The court of appeals referred to implied warranties, for instance, by way of demonstrating that even concededly contractual tenancies are subject to a range of state regulations. See Pet. App. 45a. The court never "acknowledged" (94-1528 Pet. 12), or even suggested, that the RTC's repudiation power, or the preemptive force of Section 1821(e), would allow the RTC to avoid the state-law obligations common to any landlord, so long as the tenant's possession of the leased premises remains valid under federal law.[7]

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[7] Petitioners exaggerate the "practical importance" of this case. See 94-1528 Pet. 30; see also *id.* at 11-12. The RTC, as receiver, owns a limited (and diminishing) number of rent-regulated properties. As a matter of policy, the agency does not repudiate leases held by low- or moderate-income individuals or families. See pages 3-4, *supra*. As a practical matter, the agency also does not repudiate leases where controlled rents are at or near market levels. The regulated tenancies in this case depressed the market value of the nine apartments in question from $7.5 million to $1.5 million, and required a cash subsidy from the RTC—and thus, ultimately, from the taxpayer—of nearly $19,000 *per month*. Finally, again as a matter of policy, tenants in possession under

3. Petitioners argue (94-1528 Pet. 27-29; 94-1564 Pet. 14-15) that, under New York law, rent-regulated tenancies are clearly "statutory," rather than in any way contractual. The New York cases on which the court of appeals relied, however, demonstrate that the State's rent regulations have not divorced regulated tenancies entirely from their contractual basis.[8] Petitioners cite one recent decision, for example, for the proposition that "rent-controlled tenants maintain their apartments not by contract but by operation of

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repudiated leases are typically offered the opportunity to purchase their apartments (as were the tenants in this case). C.A. App. A93, A104. There is accordingly no reason to think that the court of appeals' decision will result in "the eviction of thousands of families from their homes." 94-1528 Pet. 30.

[8] See, *e.g.*, *Seawall Associates* v. *City of New York*, 544 N.Y.S.2d 542, 548 (N.Y.) ("The rent-control and other landlord-tenant regulations that have been upheld * * * merely involved restrictions imposed on existing tenancies where the landlords had voluntarily put their properties to use for residential housing."), cert. denied, 493 U.S. 976 (1989); *Rent Stabilization Ass'n* v. *Higgins*, 608 N.Y.S.2d 930, 936-938 (N.Y. 1993) (rent regulations are not "takings" because they rest on the owner's voluntary acquiescence in the use of property for rental housing), cert. denied, 114 S. Ct. 2693 (1994); *Dawson* v. *Higgins*, 610 N.Y.S.2d 200, 206 (App. Div.) (rent-control provisions "plainly do not require a landlord to remain in the rental market in perpetuity"), appeal dismissed, 616 N.Y.S.2d 476 (N.Y. 1994), cert. denied, 115 S. Ct. 724 (1995); cf. *Manocherian* v. *Lenox Hill Hosp.*, 618 N.Y.S.2d 857 (N.Y. 1994) (striking down particular rent stabilization law as an unconstitutional taking), cert. denied, Nos. 94-1555 and 94-1560 (May 15, 1995).

law." 94-1564 Pet. 14 (citing *Duell* v. *Condon*, 622 N.Y.S.2d 891, 893 (N.Y. 1995)). Petitioners fail to point out, however, that the very next sentence of the *Duell* opinion states that, "[i]n contrast, * * * the nature of the rent-*stabilized* landlord/tenant relationship *continues to be contractual in nature*." *Duell*, 622 N.Y.S.2d at 893 (emphasis added). Moreover, the decision immediately goes on to hold that an attorneys' fees clause contained in a 1960 lease "carried forward into the statutory [rent-*controlled*] tenancy" at issue in that case, despite the nominal expiration of the lease, so that it could still be enforced (against the original landlord's executors) in 1995. *Ibid.* That holding hardly demonstrates a complete statutory displacement of the original contractual basis for the tenancy.

The question whether rent-regulated tenancies are completely "statutory," or remain partly "contractual," is a complex one. The court of appeals thoroughly considered that question (see, *e.g.*, Pet. App. 16a-19a, 44a-53a), and twice concluded that such tenancies, "albeit 'statutory tenancies' according to state law," are nonetheless "rooted in lease or contract," and are therefore "subject to the RTC's repudiation power" as a matter of federal law. *Id.* at 5a; see *id.* at 15a, 19a, 52a. There is no reason for this Court to reconsider the interpretation of New York law that informs the Second Circuit's conclusion. See, *e.g.*, *O'Melveny*, 114 S. Ct. at 2056 (Stevens, J., concurring) (local federal judges are in the best position to determine questions of local law). Nor, in the absence of any conflict among the circuit courts, is there any reason for review by this Court of

the court of appeals' interpretation of the governing federal statute.[9]

CONCLUSION

The petitions for a writ of certiorari should be denied.

Respectfully submitted.

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[9] For much the same reasons, there is no reason for this Court to review petitioners' claim (94-1528 Pet. 29 & n.17; 94-1564 Pet. 19) that the court of appeals "misapplied the FIRREA provision which gives tenants the right to remain in their apartments for the full term of their leasehold" by refusing to hold that rent-controlled tenancies, which have no specific lease "term," should therefore be perpetual, even after repudiation, under Section 1821(e)(5). The court of appeals gave careful attention to state law in selecting a period for the expiration of a tenant's continued occupancy rights under that Section, and in modifying its decision on that point on remand in order to take account of new developments in state law. See Pet. App. 23a-27a, 56a-59a. That approach appropriately accommodates the State's interests, while still respecting the supervening commands of federal law. See *id.* at 23a (*"O'Melveny* counsels that, where Congress has not provided a specific rule of decision, the courts should look to state law to fill in the[] interstices.").

☆ U. S. GOVERNMENT PRINTING OFFICE: 1995 387147 20086

No. 94-1564

IN THE

Supreme Court of the United States

OCTOBER TERM, 1994

Supreme Court, U.S.
FILED
MAR 2 1 1995
OFFICE OF THE CLERK

SUSAN SOLOMON PATTULLO, LLOYD RIBNER, as executor of the estate of MURIEL RIBNER, JOSEPH HOLLAND, Commissioner of the Division of Housing and Community Renewal of the State of New York, DENNIS G. VACCO, Attorney General of the State of New York, and NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Petitioners,

vs.

RESOLUTION TRUST CORPORATION, as Receiver for Nassau Savings and Loan Association, F.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

BRIEF AMICUS CURIAE IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1994

SUSAN SOLOMON PATTULLO, LLOYD RIBNER, as executor of the estate of MURIEL RIBNER, JOSEPH HOLLAND, Commissioner of the Division of Housing and Community Renewal of the State of New York, DENNIS G. VACCO, Attorney General of the State of New York, and NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL,

Petitioners,

vs.

RESOLUTION TRUST CORPORATION, as Receiver for Nassau Savings and Loan Association, F.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

BRIEF AMICUS CURIAE IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

INTEREST OF *AMICI CURIAE*

Amici here are all legal services and other public interest groups that have grave concerns regarding the potentially far-reaching and adverse practical effects of the Second Circuit's decision below. Specifically, under the Second Circuit's

overly broad interpretation of 12 U.S.C. §1821(e) ("Section 1821(e)"), *Amici* fear that *all* rent-regulated tenants nationwide will be placed at risk of future repudiation and eviction. *Amici* are especially concerned for rent-regulated tenants of low and moderate means who are not protected under the Second Circuit's decision.

This brief is submitted on behalf of the Council of New York Cooperatives (CNYC, Inc.), and the Federation of New York Housing Cooperatives ("FNYHC") is joined in its submission by the following organizations: Legal Services for New York City, The Legal Aid Society, Northern Manhattan Improvement Corporation, The Association for Neighborhood and Housing Development, Neighborhood Initiatives Development Corporation, The West Side SRO Law Project, The Community Service Society of New York, Inc., Metropolitan Council on Housing, New York State Tenant & Neighborhood Coalition, Inc., Center for Constitutional Rights, The City-Wide Task Force on Housing Court, Inc., and Community Training and Resource Center, Inc.

CNYC is a voluntary membership organization formed in 1975 to provide information and guidance to cooperative corporation and condominium associations throughout New York. CNYC has more than 1,850 member cooperative corporations and condominium associations. It is in all likelihood the largest organization in New York dealing with the problems of cooperatives and condominiums. FNYHC is a New York not-for-profit corporation representing another 120,000 units of cooperative housing in New York City. CNYC and FNYHC assist their members in the operation and management of their buildings, they hold workshops and seminars, and prepare and disseminate literature. They also meet with legislators and government officials to advise them about issues of concern to cooperatives and condominiums.

The Legal Services for New York City (LSNY) Housing Task Force is composed of attorneys and advocates from

seventeen neighborhood-based legal services offices which provide free legal services to low-income tenants faced with eviction in New York City Housing Court. It is dedicated to the protection of the constitutional and statutory rights of low-income tenants and thus is concerned with the outcome of this case.

The Legal Aid Society is one of the oldest and largest providers of legal assistance to the poor in the United States. The Society is counsel in numerous class-action cases concerning the rights of tenants and homeless families in New York City. Accordingly, the Society has a substantial interest in this case.

Northern Manhattan Improvement Corporation (NMIC) provides free legal services in housing matters to residents of the Washington Heights and Inwood neighborhoods of New York City. Ninety-five percent of NMIC's clients live in rent-regulated housing, and a number of buildings in the communities served by NMIC have been taken over by Resolution Trust Corporation ("RTC"). NMIC is therefore concerned with the impact of RTC takeovers on rent-regulated housing.

The Association for Neighborhood and Housing Development (ANHD) is a membership organization of seventy-five non-for-profit neighborhood-based organizations which preserve and protect housing for low-income people in New York City. ANHD is concerned with the threat to housing affordability posed by the decision in this case.

Neighborhood Initiatives Development Corporation (NIDC) is a non-profit community organization which works with tenants, co-op shareholders, and property owners to improve housing conditions and maintain a stable neighborhood in the area encompassed by Bronx Community Board #11 in New York City. Several years ago, there was a wave of co-op conversions in this community. A number of those co-ops are now in default. One four-building complex consisting of over

300 units has been taken over by RTC. This complex has tremendous financial problems and would be a prime candidate for tenant evictions if RTC were to consider only the financial health of the building and the interest of the government in recouping lost investments. Therefore, RTC's right to evict tenants as a result of the Second Circuit's opinion in this case causes NIDC great concern.

The West Side SRO Law Project was founded by the City of New York in 1981 to preserve both single-room occupancy (SRO) apartments and SRO tenancies, and to advocate for law and policy which would enhance these efforts. The integrity of the rent regulation system is vital to the organization's efforts, and, accordingly, the Law Project has a significant interest in the issues and outcome of this case.

The Community Service Society of New York, Inc., works cooperatively with community-based organizations and other social policy and advocacy groups to fight poverty through research, advocacy, community development, and direct service. Through its activities, the Society has promoted and increased the affordable housing stock for poor and homeless families in New York City and has used legal intervention to protect the rights of poor tenants in the City. The Second Circuit's decision below could damage the overall efforts and goals of the Society. Thus, the organization has a significant interest in the outcome of this case.

Metropolitan Council on Housing is a New York City-wide tenant organization dedicated to decent, affordable, and integrated housing. Because the tenant rights for which Metropolitan Council advocates would clearly be threatened if federal agencies were able to preempt state laws that secure those rights, it has a significant interest in the disposition of this case.

The New York State Tenant and Neighborhood Coalition Inc. (NYSTNC), is a state-wide tenant rights lobbying and

advocacy membership organization. The organization lobbies the New York State legislature on laws affecting tenants' rights and protections, the allocation of funds for the production of affordable housing, and the preservation of existing housing. NYSTNC therefore has a substantial interest in this case.

The Center for Constitutional Rights (CCR) is a non-profit legal and educational organization dedicated to protecting and advancing the rights guaranteed by the Constitution of the United States and the Universal Declaration of Human Rights. In more than two decades since its founding, CCR has participated, either directly or as *amicus*, in a number of cases involving housing issues. CCR is seriously concerned with the long-range impact of the Second Circuit's decision below, and thus has a significant interest in the disposition of this case.

The City-Wide Task Force on Housing Court, Inc., formed in 1981, is a not-for-profit coalition of community organizations, legal services providers and neighborhood housing advocates committed to improving the administration of justice for unrepresented litigants in New York City's housing court. In addition to providing information and referral services to thousands of unrepresented tenants each year, the Task Force monitors court operations and issues recommendations for court reform. The Task Force is concerned by the decision in this case because, if permitted to stand, such decision is certain to impact the client population served by this organization.

Community Training and Resource Center, Inc. (CTRC), founded as a not-for-profit corporation in 1982, works to improve conditions for lower income tenants and neighborhoods in New York City. Specifically, CTRC organizes neighborhood housing groups into city-wide coalitions that advocate for budgetary and policy reforms that benefit lower income

New York City renters. CTRC is concerned with the ultimate resolution of this case because it will have a profound effect on the constituents served by CTRC.

This brief is submitted in support of the petition for a Writ of Certiorari on behalf of Petitioners. Its purpose is to call to the Court's attention significant additional considerations and grave consequences of the decision of the Court below upon tenants, who are not parties to this action, which were not addressed by the Court below.

ARGUMENT

The question presented by the Petitions in this case is whether RTC's authorization to "disaffirm or repudiate any contract or lease" that it, in its discretion, "determines to be burdensome," pursuant to Section 1821(e) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), includes the power to repudiate statutory tenancies created and continued by virtue of state and local law. In the decision below, the Second Circuit held that repudiation of statutory tenancies was expressly authorized by Section 1821(e). *See RTC v. Diamond*, F.3d (2d Cir. 1995). The Second Circuit reaffirmed their "original conclusion: the rent regulations at issue here merely involve [ ] restrictions imposed on existing tenancies" and determined that "to the extent that the anti-eviction provisions of New York's rent regulations interferes with the operation of §1821(e), the state regulations and laws are preempted by FIRREA." In so holding, the Second Circuit completely ignored a long and unbroken line of authority clearly establishing that, as a matter of New York law, the obligations created by statutory tenancies are *not* contractual in nature and, in fact, cannot even be altered by contract, lease, or agreement.[1]

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[1] *See, e.g., Whitmarsh v. Farnell*, 83 N.E.2d 543 (N.Y. 1949); *Stern v. Equitable Trust Co.*, 144 N.E. 578 (N.Y. 1924); *De Santis v. White Rose Assocs.*, 578 N.Y.S.2d 363 (Sup. Ct. 1992); *Park Summit Realty Corp. v.*

(Footnote continued)

REASONS FOR GRANTING THE WRIT

I.

CERTIORARI SHOULD BE GRANTED BECAUSE THIS CASE CONCERNS A MATTER OF SUBSTANTIAL PUBLIC IMPORTANCE

The Second Circuit's decision holding that the repudiation of statutory tenancies is properly authorized by Section 1821(e) threatens to obliterate not only the continuing viability of New York's rent regulatory scheme, but also the social and public policies upon which that scheme is based.

While this case involves only nine tenancies, under the rationale of the Second Circuit's holding, RTC could ultimately utilize Section 1821(e) to terminate tenancies in *all* rent-regulated units over which it acquires control. While the precise number of rent-regulated units controlled by RTC (or FDIC) is open to question, the number clearly is significant.

Should the decision below survive appeal, *Amici* would have grave concerns regarding when, where, and how RTC will exercise its newly minted and extraordinary power to repudiate statutory tenancies. Conceivably, thousands of low-income and moderate-income tenants across the country could find themselves without a home simply because RTC, in its sole discretion determines that their tenancies "are burdensome."

While the Second Circuit evidenced concern for the potentially far-reaching social implications that its decision might have, in the end it found comfort in an RTC "Policy

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Frank, 434 N.Y.S.2d 73 (App. Term 1980), *aff'd*, 448 N.Y.S.2d 414 (App. Div. 1981), *aff'd*, 439 N.E.2d 358 (1982); *Charlotte Realty Co. v. Lubarsky*, 509 N.Y.S.2d 691 (App. Term 1986).

Statement" purporting to limit the agency's discretion in evicting low-income or moderate-income tenants. RTC's "Policy Statement" is simply an internally generated statement of guidelines that is not found in statute or regulation, it can be modified, revoked, or arguably even ignored at any time, and is not a meaningful constraint on RTC's discretion. As the District Court in this case expressly recognized: "Since section 1821(e)(1) says nothing about income levels, if the section is interpreted to encompass the power to repudiate statutory tenancies, *the RTC would not be required to adopt the income exemptions* that it has in fact adopted in this case." *RTC v. Diamond*, 801 F. Supp. 1152, 1162 n.6 (S.D.N.Y. 1992) (emphasis added), *rev'd in relevant part*, 18 F.3d 111 (2d Cir. 1994).

In other words, although the "Policy Statement" is in effect now and may for a time help mitigate the impact of the Second Circuit's holding on low-income and moderate-income tenants occupying rent-regulated housing, it is neither a guaranteed nor enforceable constraint on RTC's repudiation powers as the Second Circuit has construed them. Accordingly, *Amici* submit that the Second Circuit's advertence to the "Policy Statement" as justifying its holding, is unwarranted.

This Court has long recognized that state and local rent regulatory schemes are not only a legitimate exercise of the states' historic police powers, but also that such ordinances generally serve important public and social policy interests. As the Court observed over 70 years ago:

> The warrant for this legislative resort to the police power was the conviction on the part of the state legislators that there existed in the larger cities of the state a social emergency, caused by an insufficient supply of dwelling houses and apartments, so grave that

> it constituted a serious menace to the health, morality, comfort, and even to the peace of a large part of the people of the state. That such an emergency...would sustain a resort, otherwise valid, to the police power for the purpose of dealing with it cannot be doubted, for, unless relieved, the public welfare would suffer in respects which constitute the primary and undisputed, as well as the most usual basis and justification, for exercise of that power.

Edgar A. Levy Leasing Co. v. Siegel, 258 U.S. 242, 245 (1922).[2] It is precisely these type of public policy concerns upon which New York's long-standing rent control and rent stabilization systems are based. *See e.g., Morse & Grossman, Inc. v. Acker & Co.*, 79 N.E. 2d 258, 260 (N.Y. 1948) ("[t]he basic purpose of the emergency rent legislation was to protect tenants by placing a ceiling on rents and by preventing widespread evictions while the emergency...shortage of space continued").

There is still an acute shortage of housing in New York City. In 1993, there were approximately 2.06 million rental units in New York City, only 70,000 of which were vacant and available for rent – a vacancy rate of approximately

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[2] *See also Pennell v. City of San Jose*, 485 U.S. 1, 13 (1988) ("a primary purpose of rent control is the protection of tenants"); *Bowles v. Willingham*, 321 U.S. 503, 513 n.9 (1944) (one purpose of rent control is "to protect persons with relatively fixed and limited incomes, consumers, wage earners...from undue impairment of their standard of living"); *Block v. Hirsh*, 256 U.S. 135, 156 (1921) (in enacting rent control legislation, Congress "stated the unquestionable embarrassment of Government and danger to the public health in existing condition of things....Housing is a necessary of life. All the elements of a public interest justifying some degree of public control are present").

3.4%.[3] Perhaps more importantly, the vacancy rate for low-income housing (asking rents of less than $300) in 1993 was only 0.58%.[4] These vacancy rates are considerably less than the 5% rate that the legislature has deemed to constitute a "housing emergency." New York's rent control and rent stabilization systems are part of a comprehensive legislative effort to deal with this "housing emergency." The decision below threatens seriously to hinder this effort.

In sum, in evaluating the Petitions for Certiorari in this case, *Amici* respectfully request the Court to take into consideration the potentially enormous impact that the Second Circuit's decision might have on local housing markets generally, and on tenants of low and moderate means in particular. The public's interest in safe, affordable, and decent housing – especially in areas where local legislatures have declared housing emergencies – is too important a social policy to leave to the virtually unguided whim of federal agencies charged primarily with "maximizing" the value of government assets.

II.

CERTIORARI SHOULD BE GRANTED BECAUSE THIS CASE IS DECIDED CONTRARY TO PRIOR DECISIONS OF THIS COURT

The instant case was commenced in the United States District Court for Southern District of New York. On November 16, 1992, the district court granted New York State's

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[3] *See Selected Findings of the 1993 Housing and Vacancy Survey*, prepared by Assistant Commissioner for Policy Analysis and Research, New York City Department of Housing Preservation and Development (Feb. 8, 1994) (hereinafter *"Selected Findings"*).

[4] *See id.*

motion for summary judgment and denied summary judgment to the RTC. The district court looked to state law for the definition of "contract or lease" and determined that New York's statutory tenancies are not based on leases or contracts. Thereafter, on March 2, 1994 the Second Circuit reversed the district court and held that, because the nine tenancies were grounded in a lease, they fell within FIRREA, notwithstanding the existence of New York's rent regulatory statute. The Second Circuit also held that even though 12 U.S.C. §1821 (e)(5)(A)(ii) provided that the lessee under a repudiated lease could "remain in possession of the leasehold interest for the balance of the term of the lease unless the lessee defaults under the terms of the lease after the date of such repudiation" and New York State law permits these tenancies to continue upon each reauthorization of state statute, the RTC had the authority to shorten the duration of the tenancy.

On October 3, 1994, this Court granted a writ of certiorari, the judgment of the Second Circuit was vacated and the case was remanded for further consideration in light of this Court's decision in *O'Melveny & Meyers v. Federal Deposit Insurance Corporation*, 114 S.Ct. at 2048. Upon remand, the Second Circuit on January 20, 1995, reinstated its previous opinion with one minor modification relating to the remaining term of the disaffirmed lease. The Second Circuit distinguished *O'Melveny* on several grounds, found that since the relationship between the occupants of the apartments and the landlord commenced with a lease New York's statutes were only modifications to the underlying leases providing the RTC with the ability to repudiate the leases, and that "the non-eviction aspects of the state's laws directly interfered with the execution of Congress' mandate in FIRREA and could therefore be preempted."

However, the Second Circuit's decision on remand misconstrues this Court's decision in *O'Melveny* that state law should define the rights of the lending institution prior to the

RTC's takeover of that institution. Notwithstanding the Second Circuit's position that they are not creating a federal definition of contract or lease in contravention of the strictures laid down by this Court in *O'Melveny*, the Second Circuit clearly ignored New York law and uses FIRREA to redefine the rights of statutory tenants in apartments owned by the RTC.

This is most obvious in the Second Circuit's reduction of the lease term from continuing as long as New York's laws permit to June 1, 1995. Even if one could assume that New York's statutory tenants are really subject to leases, there is no basis in either Federal or state law to limit the lease term. The Second Circuit claims that because the anti-eviction provisions of New York's rent regulations interfere with the operation of §1821(e) they are preempted by FIRREA. However, the Second Circuit ignores the fact that New York's laws do not provide a perpetual tenancy, but only one that continues during the tenant's life and as long as the tenant continues to pay rent. At the very least, on the tenant's death, the RTC will be able to sell or lease the apartment at its full market value. New York's laws are not preventing the RTC from maximizing the value of their assets, but only deferring that maximization. There is no conflict between New York and Federal law permitting the RTC to preempt New York law.

This Court's decision in *O'Melveny* is particularly instructive because it provides the following guidelines:

> It is hard to avoid the conclusion that §1821(d)(2)(A)(i) places the FDIC in the shoes of the insolvent S&L, to work out its claims under state law, except where some provision in the extensive framework of FIRREA provides otherwise. To create additional "federal

> common law" exceptions is not to "supplement" this scheme, but to alter it.
>
> . . . .
>
> What is fatal to respondent's position in the present case is that it has identified *no* significant conflict with an identifiable federal policy or interest. 114 S. Ct. __

Since the Second Circuit's decision to ignore New York state law in construing §1821(e) cannot be reconciled with this Court's decision in *O'Melveny*, certiorari should be granted and the Second Circuit's decision reversed.

III.

CERTIORARI SHOULD BE GRANTED BECAUSE THE SECOND CIRCUIT'S DECISIONS ARE INCONSISTENT WITH THE PRESUMPTION AGAINST PREEMPTING A STATE FROM EXERCISING ITS POLICE POWERS.

This Court has repeatedly held that, in interpreting federal legislation; there is a strong presumption against the preemption of state and common law. *United States v. Texas*, 113 S. Ct. 1631, 1634 (1993); *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947). This is especially true where the historic police powers of the states are implicated. *See, e.g., Cipollone v. Liggett Group*, 112 S. Ct. 2608, 2617 (1992). Local regulation of the landlord-tenant relationship, including the adoption of rent control ordinances, is within the traditional police powers of the states. *See e.g., Yee v. City of Escondido*, 112 S. Ct. 1522, 1529 (1992); *Pennell v. City of San Jose*, 485 U.S. 1, 12 & n.6 (1988); *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 440 (1982); *Bowles v. Willingham*, 321 U.S. 503, 517-18 (1944); *Edgar A. Levy Leasing Co. v. Siegel*, 258 U.S. 242, 245 (1922); *Block v.*

Hirsh, 256 U.S. 135, 155-57 (1921). In addition, the Court has held that longstanding concepts of state law should be utilized whenever possible to define terms and fill interstices in federal legislation. *See, e.g., Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 98, 101-08 (1991); *United States v. Kimbell Foods, Inc.*, 440 U.S. 715, 728-29, 739-40 (1979); *Butner v. United States*, 440 U.S. 48, 54 (1979); *RFC v. Beaver County*, 328 U.S. 204, 210 (1946).

Similarly, in *O'Melveny* this Court expressly noted that "matters left unaddressed [by FIRREA] are presumably left subject to the disposition provided by state law." Although FIRREA contains numerous definitions, see 12 U.S.C. §1813, the statutory scheme has "left unaddressed" what constitutes a "contract or lease." Thus, the Court's decision in *O'Melveny* also confirms that state law should supply the definition of the terms "contract or lease."

Therefore, since this case involves the police powers of the state, the State's laws should not be preempted without explicit Congressional authority which simply does not exist.

The Second Circuit's decision is particularly surprising since, unlike other preemption cases, the residents of these apartments neither represented nor had any involvement with the failed savings institution. They did not borrow money from, represent the failed lending institution nor benefit in any way from the original loan to the sponsor of their building's conversion to condominium ownership. The right to continue occupying their homes existed prior to FIRREA, the loan to the sponsor and the failure of the lending institution. It is a right that has been repeatedly reaffirmed by New York legislatures for over half a century and is relied on by hundreds of thousands of New York residents who did not benefit from the failed lending institutions, but are paying for the "bail out" with their tax dollars. The rights of the occupants of these apartments must be protected and is in keeping with the state's fundamental right to protect its residents.

CONCLUSION

The decision of the Court of Appeals in this case completely ignored well-settled principles of statutory construction to the potential detriment not only of petitioners, but of thousands of tenants in New York and across the country. In order to correct these errors, and to resolve the decisional conflicts that the Second Circuit's opinion creates, the writ should issue.

Dated: March 20, 1995

Respectfully submitted,

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